

# MPOFANA LOCAL MUNICIPALITY

2012 2013

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**‘The Future is in our Hands Lets Build’**

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

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## PREFACE

### Legislative

**Section 121 of the Local Government : Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that “**

*Every municipality and every municipality entity must for each financial year prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129.*

*The purpose of an annual report is-*

*To provide a record of activities of the municipality or municipal entity during the financial year to which the report relates;*

*To provide a report on performance against the budget of the municipality or municipal entity for that financial year; and*

*To promote accountability to the local community for the decision made throughout the year by the municipality or municipality entity*

*The annual report of the municipality must include-*

- ✓ *The annual financial statements of the municipality, and in addition, if section 122 (2) applies, consolidated annual financial statements, as submitted to the Auditor General for audit in terms of section 126 (1);*
- ✓ *The Auditor General report in terms of section 126 (3) on those financial statements.*
- ✓ *The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal System Act;*
- ✓ *The Auditor General’s audit report in terms of section 45 (b) of the Municipal Systems Act.*
- ✓ *An assessment by the municipality ‘s accounting officer of any arrears on municipal taxes and service charges;*

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- ✓ *An assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue collection from each revenue sources and for each vote in the municipality's approved budget for the relevant financial year;*
- ✓ *Particulars of any corrective action taken or to be taken in response to the issues raised in the audit reports referred to in paragraphs (b) and (d)*
- ✓ *Any explanation that maybe necessary to clarify issues that in connection with the financial statements;*
- ✓ *Any information as determined by the municipality;*
- ✓ *Any recommendations of the municipality's audit committee; and*
- ✓ *Any other information as may be prescribed.*
- ✓ *The annual report of a municipal entity must include-*
- ✓ *The annual financial statements of the entity as submitted to the Auditor General for audit in terms of section 126 (2) on those financial statements*
- ✓ *The Auditor General's audit report in terms of section 126 (3) on those financial statements;*
- ✓ *An assessment by the entity's accounting officer of any arrears on those financial statements;*
- ✓ *An assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms the service delivery agreement or other agreement between the entity and its parent municipality*
- ✓ *Particulars of any corrective action taken or to be taken in response to issues raised in the audit report referred to in paragraph (b);*
- ✓ *Any information as determined by the entity or its parent municipality;*
- ✓ *Any recommendations of the audit committee of the entity or its parent municipality; and*
- ✓ *Any other information as may be prescribed."*



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## **GLOSSARY OF TERMS**

|          |   |  |
|----------|---|--|
| AG       | - | Auditor-General  |
| BEE      | - | Black Economic Empowerment   |
| COGTA    | - | Co-operative Governance and Traditional Affairs                            |
| DBSA     | - | Development Bank of South Africa   |
| DAERD    | - | Department of Agriculture, Environmental Affairs and Rural Development     |
| DME      | - | Department of Minerals and Energy  |
| DOE      | - | Department of Education  |
| DOH      | - | Department of Housing  |
| DORA     | - | Division of Revenue Act  |
| DOT      | - | Department of Transport  |
| DWAF     | - | Department of Water Affairs and Forestry                                   |
| EPWP     | - | Extended Public Works Programme  |
| GIS      | - | Geographical Information System  |
| HIV/AIDS | - | Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome            |
| ICT      | - | Information Communication Technology <i>also referred to as IT</i>         |
| IDP      | - | Integrated Development Plan  |
| IDP RF   | - | Integrated Development Plan Representative Forum                           |
| IWMP     | - | Integrated Waste Management Plan   |
| KPI      | - | Key Performance Indicator  |
| KZN      | - | KwaZulu-Natal  |
| LED      | - | Local Economic Development   |
| LRAD     | - | Land Redistribution for Agricultural Development                           |
| MEC      | - | Member of the Executive Council (Local Government and Traditional Affairs) |
| MFMA     | - | Municipal Finance Management Act No. 56 of 2003                            |
| MIG      | - | Municipal Infrastructure Grant   |
| MPAC     | - | Municipal Public Accounts Committee  |
| MTCF     | - | Medium-term Capital Framework  |
| MTEF     | - | Medium-Term Expenditure Framework  |

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|         |   |  |
|---------|---|--|
| MTSF    | - | Medium-Term Strategic Framework                    |
| NHBRC   | - | National Home Builders Registration Council        |
| NSDP    | - | National Spatial Development Perspective           |
| NWMS    | - | National Waste Management Strategy                 |
| PSEDS - |   | Provincial Spatial Economic Development Strategies |
| PGDS    | - | Provincial Growth and Development Strategy         |
| PMS     | - | Performance Management System                      |
| PIMS    | - | Planning, Implementation and Management System     |
| PMS     | - | Performance Management System                      |
| PPP     | - | Public-Private Partnership                         |
| RDP     | - | Reconstruction and Development Programme           |
| RSC     | - | Regional Service Centre                            |
| SCOPA - |   | Standing Committee on Public Accounts              |
| SDBIP   | - | Service Delivery and Budget Implementation Plan    |
| SDP     | - | Site Development Plan                              |
| SCM     | - | Supply Chain Management                            |
| SMME -  |   | Small, Medium and Micro Enterprise                 |
| TA      | - | Tribal Authority                                   |
| WSB     | - | Water Services Backlog                             |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## CHAPTER 1 – MAYOR’S FOREWORD AND EXUCUTIVE SUMMARY



### **Foreword: By Her Worship the Mayor CLLR N.J. Mpangase**

Section 127 (2) of the Local Government: Municipal Finance Management Act, 56 of 2004 (MFMA), the Mayor of a Municipality must, within seven months after the end of the financial year, table in the Municipal Council the Annual Report of the Municipality and of any Municipal Entity under the Municipality’s sole or shared control.

It therefore gives me pleasure to present this Annual Report of Mpofana Local Municipality for the period of 2012/2013 to Council, our community, and other stakeholders. We derive our mandate as the Municipality from the Constitution of the Republic of South Africa, which spells out the objectives and the mandate of Municipalities. We also understand as a Municipality that the cornerstone for the success of our country and democracy is the participation and consultation of our communities.

The Municipality is serving a population of more than 38103 people in 4 Wards. The extent of the area is enormous with uneven topography. The needs of our people in our area far exceed the resources of the Municipality. 2012/2013 has not been an easy ride with the municipality facing financial difficulties and resignation of key senior management. Inspite of all these challenges the Municipality has strive to perform to its best under the circumstances.

The Auditor General results have not been a favourable one, this is a result lack of both financial and human capacity within the municipality. Therefore it is necessary that our oversight structures are

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enhanced to ensure that nothing goes wrong or unnoticed and therefore our community can rest assured that their financial contribution to this Municipality is well managed.

As a municipality, we are very much appreciative of the government sector departments' for its continuous involvement and support to Operation Sukuma Sakhe, which is an initiative from the Office of The Premier; hence it enables the community to interact directly with the three spheres of government in the War-room Structures.

Revenue generation and collection is still a major challenge due to the majority of the community being classified as indigent. Our unemployment levels are still considerably high and thus we are in an unfavorable financial situation. In spite of all challenges we had to face, the municipality was able to get some of the new projects off the ground, i.e. Bruntville Clinic Road, and the following housing projects; Phumlaas, Craigieburn, Rosetta Piggyfarm, Ekujabuleni, and Ebuhleni.

The 2013 financial year marks the third year of our term in office, and we have experience some challenges, some were resolved and some were beyond our control.

I wish to express my sincere heartfelt gratitude to the community of Mpofana for their consistent support and cooperation. I further thank the Acting Municipal Manager and the entire team for their service to the Council and our community. It is worth noting and also thanks members of Council for their diligent efforts and commitment which is evident in the way Council is operating.

CLLR N. J. MPANGASE

**HER WORSHIP THE MAYOR**

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## MUNICIPAL MANAGERS OVERVIEW

Mpofana Municipality has gone through very difficult and extremely trying times during the 2012/2013 financial year. This is mainly attributed to the fact that there was a mass exodus of senior management leaving a void which impacted very negatively on the functioning of the municipality, particularly around the areas of compliance. What further exacerbated this unfortunate state of affairs was the delay in filling the vacant positions for almost the entire financial year, however the situation could have been worse but for some reason the municipality continued to function amid the crippling circumstances that prevailed.

It should be noted that the municipality was a runner-up for the top prize of the best performing small municipality for 2011/2012 and during the same financial year, the municipality obtained an unqualified audit opinion and in the light of all these positive aspects for the previous year, it begs a question why suddenly the municipality would regress and until all those dynamics are understood in their proper context, the situation of our municipality could easily be viewed out of context.

Whilst the municipality went through all the above mentioned challenges, the political leadership of the municipality remained solid and intact and that was a positive factor for the municipality as its institutional memory remained undisturbed at that level. It is the same political leadership that remained steadfast despite the collapse of the administration and continued to provide leadership and modus operandi to the administration in pursuit of the service delivery mandate vested on them. Admittedly through certain interventions, the municipality continued to provide minimum service to the community using the limited resources at its disposal, and managed to curtail the municipality from further regressing to a point of no return.

A qualified audit opinion for the 2012/2013 financial year bears a testimony to the fact that not all was lost as the situation could have been worse and this presents itself as an opportunity for the

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municipality to unleash itself and to work on its failures and inadequacies for the purpose of improving service delivery to its communities. Year 2011/2012 will continue to manifest itself as the year of introspection for both political leadership and the administration of the municipality, in order to guard against and to prevent any tendencies that are counter-productive and there are synonymous with the irregularities of 2011/2012.

Going forward, it is important that we learn from all the mistakes of the past and also make a commitment that we do everything that is required for the municipality to achieve its desired objectives of optimally providing the much needed services to its communities and to work very closely with the communities.

Having said that, undoubtedly the challenges facing our municipality will be overcome and transformed into tangible deliverables and milestones for success in making our municipality one of the best performing municipalities.

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## VISION

By the year 2020, Mpofana will be a sustainable, socially and economically developed municipality, that encourages community participation and whose residents live in a safe and healthy environment. Mpofana will, in addition have substantially increased its contribution to its districts gross geographic product whilst also having realized substantially decreased its share of poverty

## MISSION STATEMENT

Mpofana Municipality is to be a pro-active, accountable and financially viable municipality that is continually striving to provide efficient, affordable, sustainable and customer-orientated services - committed to participation principles in the social and economic development of our community.

### Principles and Values

The principles and values which Mpofana Municipality ascribes to are as follows:

- Maintain Customer focus and strive for quality, effectiveness, efficiency and sustainability in the delivery of all our services;
- Develop a high culture of performance and excellence based on innovation and development;
- Undertake the responsibility with stewardship and play a leadership role on issues of importance to the municipality;
- Active seek and forge mutually beneficial partnerships with all its stakeholders;
- Communicate effectively with communities and other stakeholders in a manner that promotes their participation;
- Act with respect, honesty, trust and empathy;
- Uphold diligence, professionalism and risk tolerance in our quest for innovation and improvement in service delivery;
- Promote ongoing development of management and adaptable skills to cope with changes

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in the environmental and customer expectations;

- Create an environment that is conducive to self-initiative and fostering a culture of individual identity with the Municipality as an organization;
- Commitment to equity and social redress, and
- Be inclusive, transparent, and accountable and act with integrity.

## **Goals, Objectives and Priorities**

The overall goals and objectives for the Municipality which are drawn from the formal mandates are as follows:

- To improve financial management to ensure sustainable financial viability;
- To instill, advance and sustain a good organizational culture and service excellence;
- To create and ensure a conducive environment for Economic Growth and Development;
- To leverage and enhance municipal capacity to promote democracy and accountability;
- To ensure continuous improvement in the level and quality of service delivery, and
- To promote coordinated planning, implementation and continued evaluation.



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## MUNICIPAL FUNCTIONS, MANDATE, POPULATION AND ENVIRONMENTAL OVERVIEW

### MUNICIPAL FUNCTIONS

In terms of section 84 of the Local Government: Municipal Structures Act No. 117 of 1998, the Mpofana Local Municipality has the following powers and functions:

- Integrated Development Planning
- Solid waste disposal
- Regulation of passenger transport services
- The establishment, conduct and control of fresh produce markets and abattoirs
- The establishment, conduct and control of cemeteries
- Promotion of local tourism for the area
- The imposition and collection of taxes, levies and duties as related to the above functions
- Municipal roads
- Municipal public works relating to any of the above functions

### 1.2.2 MANDATES

The legislative mandates exercised by the municipality in terms of the local government legislative framework are as follows:

- Local Government: Municipal Structures Act, 117 of 1998;
- Local Government: Municipal Systems Act, 32 of 2000;
- Local Government: Municipal Finance Management Act, 56 of 2003;

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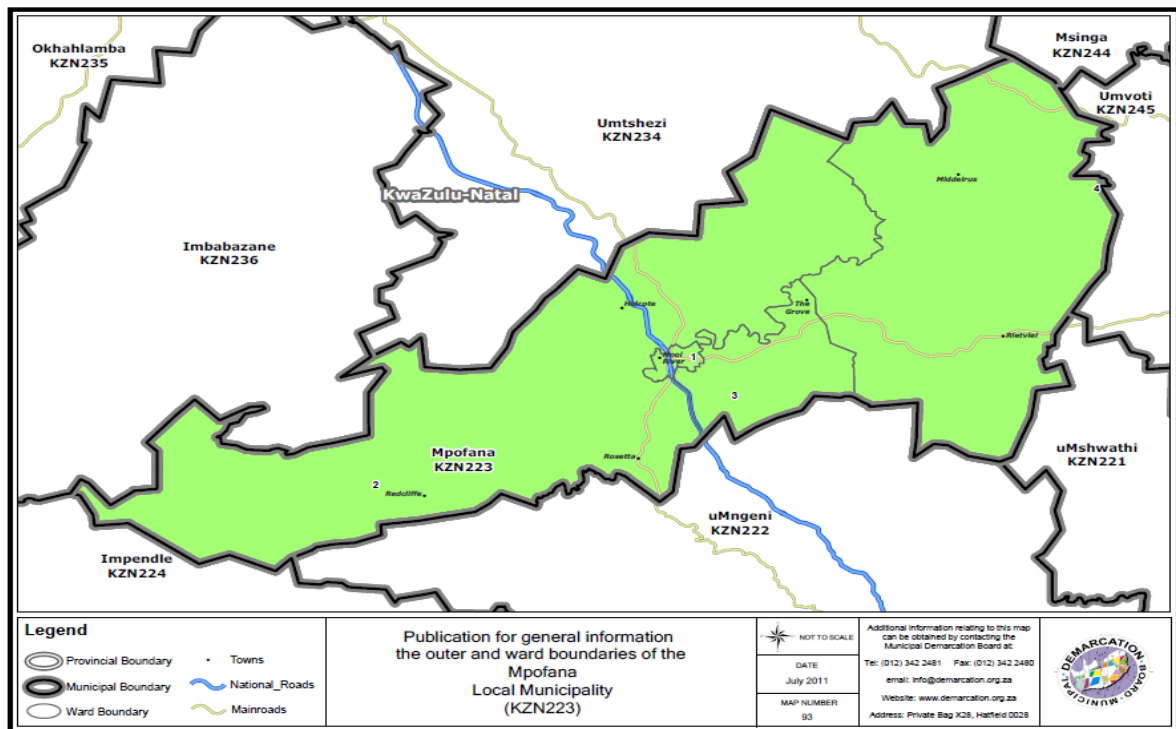
- Local Government: Municipal Planning and Performance Management Regulation, 2001;
- Local Government: Municipal Property Rates Act, 6 of 2004;
- Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to the Municipal Manager, 2006;
- Local Government: Development Facilitation Act;
- Local Government: Municipal Demarcation Act, 27 of 2008;
- Disaster Management Act, 57 of 2002;
- Intergovernmental Relations Framework Act, 13 of 2005;
- Remuneration of Public Office Bearers Act, 20 of 1998;
- Organised Local Government Act, 52 of 1997;

## **Supporting mandates**

- The Constitution of the Republic of South Africa, 1996;
- White Paper on Transforming Public Service Delivery (Batho Pele), 1997
- White Paper on Service Delivery.

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## 1.2.2 POPULATION AND DEMOGRAPHICS



### Geographic and Demographic of Mpofana Municipality

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## Municipal position within KwaZulu Natal Province

### Demographics

Information presented in this Annual report is based on the 2012/2013 IDP which captured its data from the latest 2011 Census as part of the process of understanding the current situation

The Mpoofana Municipality is divided into 4 Wards, which cover the area of approximately 181 000 hectares. These are:

|        |   |
|--------|---|
| Ward 1 | This is made up of Mooi River, which can be described primarily as a formal urban area within denser development;   |
| Ward 2 | This is made up of Rosetta which is a town area, and Dabulamanzi, Kamberg and Thendele which are rural settlements; |
| Ward 3 | This is made up predominantly of Bruntville and Townview; which are urban areas;                                    |
| Ward 4 | This is made up Rietvlei, Middelrus and parts of Muden, which are predominantly rural settlement areas.             |

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## Population

In terms of 2011 Census Survey, Mpofana Municipality has a total of 43608 people. Out of this number, statistics show that 16 260 voters were registered as at June 2012 (IEC Statistics). These can be broken down as follows:

- A. Ward 1:4713 Voters
- B. Ward 2:3279 Voters
- C. Ward 3:3767 Voters
- D. Ward 4:4501 Voters

## Total Population within uMgungundlovu District

| Municipality        | Population in number | Population in %  |
|---------------------|----------------------|------------------|
| DC22 uMgungundlovu  | 1 017 763            | 9.6% of province |
| KZN221 Umshwati     | 106 374              | 11% of district  |
| KZN225 Msunduzi     | 618 536              | 61% of district  |
| KZN222 uMngeni      | 92 710               | 9% of district   |
| KZN223 Mpofana      | 38 103               | 4% of district   |
| KZN224 Impendle     | 33 105               | 3% of district   |
| KZN226 Mkhambathini | 63 142               | 6% of district   |
| KZN227 Richmond     | 65 793               | 5% of district   |

Source: *Census 2011*

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## Population Grouping

| Population Groups  | Black African % |       | Coloured % |       | Indian/Asian % |       | White % |         | Total  |
|--------------------|-----------------|-------|------------|-------|----------------|-------|---------|---------|--------|
| <b>Census 1996</b> | 21 564          | 84.4% | 117        | 0.83% | 719            | 2.90% | 2 947   | 11.84 % | 24 794 |
| <b>Census 2001</b> | 33 157          | 90%   | 213        | 0.57% | 796            | 2.16% | 2 665   | 7.23%   | 36 820 |
| <b>Census 2011</b> | 34 992          | 91%   | 227        | 0.59% | 678            | 1.77% | 1968    | 516%    | 38103  |

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## Population Groupings by Age

*Age by Gender - Census 2011*

| Age Group    | Male | Female | Total<br>Group |
|--------------|------|--------|----------------|
| <b>0-4</b>   | 2099 | 2073   | 4 172          |
| <b>5-9</b>   | 1853 | 1821   | 3 675          |
| <b>10-14</b> | 1878 | 1768   | 3 646          |
| <b>15-19</b> | 1946 | 1771   | 3 717          |
| <b>20-24</b> | 2061 | 2008   | 4 069          |
| <b>25-29</b> | 2007 | 2013   | 4 020          |
| <b>30-34</b> | 1530 | 1545   | 3 075          |
| <b>35-39</b> | 1224 | 1311   | 2 535          |
| <b>40-44</b> | 911  | 1183   | 2 094          |
| <b>45-49</b> | 769  | 969    | 1 738          |
| <b>50-54</b> | 599  | 819    | 1 418          |
| <b>55-59</b> | 544  | 706    | 1 249          |

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|              |               |               |               |
|--------------|---------------|---------------|---------------|
| <b>60-64</b> | 480           | 627           | 1 107         |
| <b>65-69</b> | 236           | 326           | 562           |
| <b>70-74</b> | 150           | 243           | 393           |
| <b>75-79</b> | 95            | 154           | 249           |
| <b>80-89</b> | 63            | 144           | 206           |
| <b>85+</b>   | 41            | 135           | 176           |
| <b>Total</b> | <b>18 487</b> | <b>19 617</b> | <b>38 103</b> |

Data in the table above shows that a larger portion of the population of the Mpofana Municipality is youth as it falls between 0-34 years age category, which compels the Mpofana Municipality to initiate, develop and put youth development programmes into effect. The 2007 Community data indicates a female majority of 52% and 48% males respectively. There seem to be no shift from the previous Census Data which reflected a higher number of males at 48.5% when compared to 51.5% females. The 2007 findings are similar to the National Population Trend which indicates that women constitute a higher percentage of the South African population.

Mpofana Municipality does not have people residing in shacks or squatter settlement as approximately 71, 5% of households are “stand alone” brick structured dwellings. The 2009/2010 housing backlogs was carried over to and 2010/2011 IDP. A plan for projects to implement as strategy of addressing the housing backlogs is now in place, pending the starting up of project in the financial year 2012/2013.

According to the Census 2011 data, the municipality has 10452 total number of households as per **Table** below:



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## *Households Census 2011*

| Number of Households |
|----------------------|
| 9244                 |

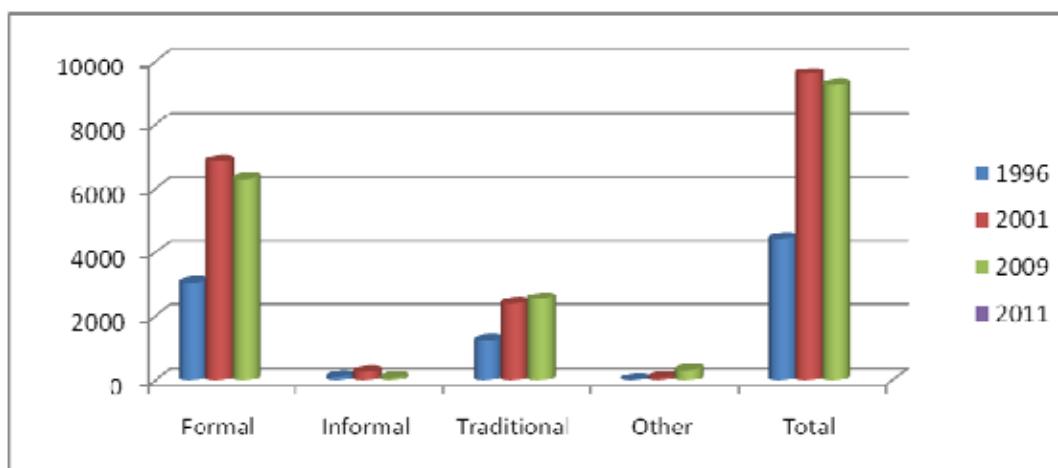
The municipality in partnership with external bodies has embarked upon establishing a Housing Sector Plan that will enable Municipality to strategically plan housing development within the jurisdiction of the Municipality. The purpose will be to address challenge of the conversion of traditional houses to more formal ones. Most of these are located in rural areas. The IDP process has helped in identifying housing projects that will assist in this regard. (See *table* below):

## *Dwelling Type (Census 2001-2011)*

| Nature of Households | 1996         | 2001         | 2009        | 2011        |
|----------------------|--------------|--------------|-------------|-------------|
| Formal               | 3 055        | 6 870        | 6303        | 6303        |
| informal             | 109          | 258          | 79          | 179         |
| traditional          | 1 250        | 2 383        | 2545        | 2545        |
| Other                | 18           | 86           | 317         | 217         |
| <b>TOTAL</b>         | <b>4 432</b> | <b>9 597</b> | <b>9243</b> | <b>9244</b> |

## *Graphical Household information*

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Overall, the municipality does not find itself with problems relating to people residing in shacks or squatter settlement as 71, 5% of households are “stand alone” brick structures traditional dwellings. The 2009/2010 IDP has identified projects that will assist in addressing the backlogs in terms of housing.

Sustainable human settlement is important in addressing issues of housing backlog. The Department of Housing along with the municipality is currently revamping the households in Townview to bigger and aesthetically appealing housing unit. It will be most important for the municipality to perhaps engage in initiatives that will educate the communities about the importance of preserving and keeping their environment in a good state in order to address other issues related to service delivery.

## Education Levels

Table below indicates the trends of education levels amongst males and females in the Mpofana Municipality in terms of the following findings:

- A significant number in the population who have not obtained any schooling, especially in females. (It is assumed that the majority of women who have not obtained any schooling largely form part of the older generation of the population).
- There has been over the years a significant decline in the number of people who continue to tertiary education after completing the matriculation level. (This can be attributed to the

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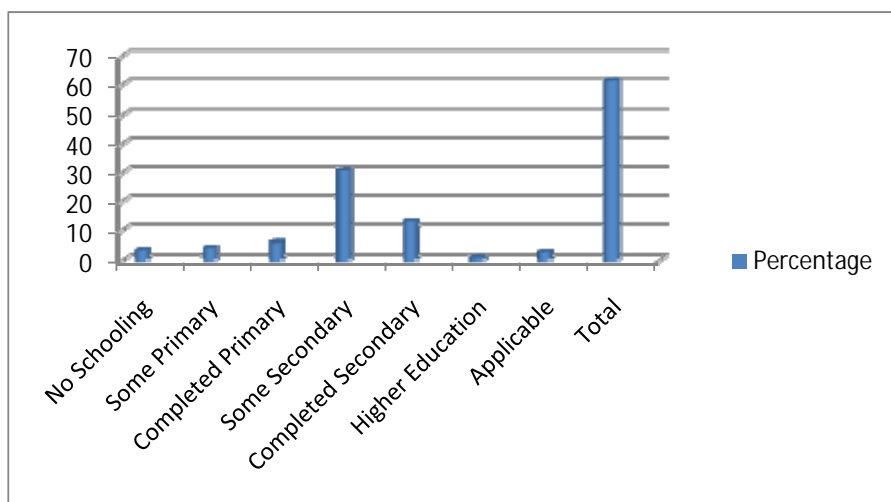
factors such as poor matriculation results, lack of financial resources to those who pass matriculation, or lack of knowledge of financial aid available to prospective tertiary students, when the poverty levels might also be a contributing factor).

### *Level of Education (Census 2011) All Ages*

| Group               | Percentage |
|---------------------|------------|
| No Schooling        | 3.5%       |
| Some Primary        | 4.3%       |
| Completed Primary   | 5.9%       |
| Some Secondary      | 30.7%      |
| Completed Secondary | 13%        |
| Higher Education    | 1%         |
| Not Applicable      | 2.9%       |

### *Graphical Level of Education*

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As a strategy to improve its social development provision, the Mpozana Municipality initiated and developed a Youth Advisory Centre, where some of the above spelt education findings and assumptions are addressed.

There is also a functional ABET Centre which addresses the learning needs of the population up to Matric level, as well as FET College which has been established by Municipality to address the needs of the post Matriculants. Both these institutions are housed at Eminyezaneni High School, in Bruntville. The proposed renovation of the Youth Advisory Centre and the Library in the will also assist in enhancing the educational resources within the municipality.

## **Population Groupings by Employment Trends**

The employment status in the Municipality is standing at 48,37% of the total population in the 15-65 year age group. The rationale for this low employment level is based on none economically active individuals and shows a significant percentage of 30,31%. The majority of the people who are not economically active are still engaged in academic studies.

The unemployment levels are projected at 16%. This is due to a lack of economic activities that provide employment to the municipality. This can also be attributed to the closure of Mooi Textile in the nineties, lack of entrepreneurs, lack of infrastructure to boost investor confidence, lack of skilled labour etc. The municipality also faces a shortage in the skilled and professional pool labour as most individuals are employed in elementary occupations.

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The lack of skilled labour or professionals in the municipality results in other individuals outside of the municipality being employed within.

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## SERVICE DELIVERY OVERVIEW

The Municipality has supported its service delivery efforts through Expanded Public Works Programme (EPWP). A number of areas which were not taken off previously are now be catered for under the EPWP.

A number of capital projects were introduced and there were successes in the empowerment of local people where projects were being implemented. Local communities were involved in the construction of the various infrastructure projects.

The Municipality has continued to embark on poverty alleviation initiatives to assist the local communities sustainably. For the 2012/13 year the municipality has have assisted the public in setting up a recycling centre which is also supported by Wildlands Conservation Trust.

Furthermore a number of capital projects are still ongoing and it progress in shown in the table below

| SOURCE | PROJECT                                 | AMOUNT        | Expected Time for Completion                                     |
|--------|---|---------------|--|
| MIG    | Gwala Park Road                         | 16 348 883.00 | Completed  |
| MIG    | Mpofana & Craigiebum Access Gravel Road | 5 237 559.03  | Completed  |
| MIG    | Phumlas Road Rehabilitation             | 10 603 963.65 | September 2014   |
| MIG    | Rehabilitation of Phumlas Internal Road | 10 199 079.12 | Baseline schedule has been revised and the contractor is on site |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|              |   |                      |  |
|--------------|---|----------------------|--|
| MIG          | Rehabilitation of Mooi River CBD Roads          | 11 397 659.80        | 60% complete<br>delays caused by weather conditions          |
| MIG          | Rehabilitation of Bruntville Clinic Access Road | 8 885 304.07         | September 2014   |
| MIG          | Rehabilitation of Uppertown Main Road           | 17 904 664.97        | Contractor Still on site delays caused by weather conditions |
| MIG          | Construction of Ebuhleni Access Road            | R1 387 155.27        | Design Stage   |
| MIG          | Rosetta Road Upgrade                            | R16 432 870.94       | Design Stage   |
| <b>Total</b> |   | <b>80 577 113.64</b> |  |

The Municipality has put together a plan to fast track the completion of the above project. Furthermore more business plans are being put together to source funding to complete housing project that are still needed. IT should also be noted that the availability of land is a major issue which prevents the municipality from achieving its vision in terms of Housing delivery.

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## FINANCIAL HEALTH OVERVIEW

The high levels of unemployment in the municipality's jurisdiction have impacted negatively on our ability to collect outstanding debt. Consequently, an increased number of indigents characterize the municipality revenue base. As a result long outstanding debtors have been significantly been impaired.

Although the municipality is vast geographically, the size relative to population is very small. Therefore, this is reflected in the small equitable share allocation because the formula put significant weight on the population size. In light of the above the municipality is still exploring ways of funding indigents as the equitable share is not enough.

The aging municipal electricity infrastructure is also impacting negatively on revenue collection as electricity is lost in transmission, illegal connections and incomplete billings attributed to the old infrastructure.

The electricity supply in the Municipality is being supplied by the Municipality and Eskom in Ward **Xxxxxxx** which is predominantly the urban area and there are areas where Eskom supply electricity in the rural areas.

Our municipal accounts consist of mainly electricity supply, rates, refuse removal and other revenue. Water supply and sanitation is the function of the District Municipality.

To illustrate our point in the slow collection rate our Municipality finds itself, see the billing sample of a month of June;



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**Table 1 : Billing Sample for June 2013**

| <b>Refuse Collection Billing for June 2013</b> |                     |
|--|---------------------|
| <b>Billing</b>                                 | <b>2 766 343.15</b> |
| <b>Collection</b>                              | <b>535 390.18</b>   |
| <b>Net- Effect</b>                             | <b>2 230 952.97</b> |
| <b>Overall Percentage</b>                      | <b>19%</b>          |

| <b>Rates Collection Billing for June 2013</b> |                     |
|---|---------------------|
| <b>Billing</b>                                | <b>8 905 371.34</b> |
| <b>Collection</b>                             | <b>5 643 902.89</b> |
| <b>Net- Effect</b>                            | <b>3 261 468.45</b> |
| <b>Overall Percentage</b>                     | <b>63%</b>          |

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| Conventional Electricity Billing for the month of June 2013 |                      |
|---|----------------------|
| <b>Billing</b>  | <b>32 767 714.66</b> |
| <b>Collection</b>   | <b>26 142 755.42</b> |
| <b>Net- Effect</b>  | <b>6 624 959.24</b>  |
| <b>Overall Percentage</b>                                   | <b>80%</b>           |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## ORGANISATIONAL DEVELOPMENT OVERVIEW

### Challenges

The centre of the municipality (Mooi River) has over the years seen a decline in economic growth which was largely based on the clothing and textile industry. This growth has been hindered by an increase in the South African economy by China's investment in the clothing and textile industry and the town has been no exception. With the close of most clothing and textile industries, saw an increase in the unemployment ratio, lack of investment and increased poverty levels. Other challenges include unsustainable human settlement, ineffective human capital due to low levels of literacy and lack of skills development, high prevalence of HIV/AIDS, access to basic services especially in Ward 2 & 4 of the municipal area.

The following are considered to be the Key Challenges faced by the Municipality

- Ward Committees effective and efficient participating in planning and development process;
- High Percentage of Unemployment;
- Financial Sustainability;
- Human Resource Capacity;
- Inability to generate our own revenue to fast track service delivery.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## STATUTORY ANNUAL REPORT PROCESS

| Item | Activity  | Time Frame |
|------|---|------------|
| 1    | Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period. | July       |
| 2    | Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).   |            |
| 3    | Finalise 4 <sup>th</sup> quarter Report for previous financial year   |            |
| 4    | Submit draft Annual Report to Internal Audit and Auditor-General  |            |
| 5    | Municipal entities submit draft annual reports to MM  |            |
| 6    | Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)   | August     |
| 8    | Mayor tables the unaudited Annual Report  |            |
| 9    | Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General.  |            |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|    |  |                        |
|----|--|------------------------|
| 10 | Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase                      |                        |
| 11 | Auditor General assesses draft Annual Report including consolidated Annual Financial Statements and Performance data             | September -<br>October |
| 12 | Start to address the Auditor General's Findings  | November               |
| 13 | Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report               |                        |
| 14 | Audited Annual Report is made public and representation is invited   |                        |
| 15 | Oversight Committee assesses Annual Report   |                        |
| 16 | Council adopts Oversight report  | December               |
| 17 | Oversight report is made public  |                        |
| 18 | Oversight report is submitted to relevant provincial councils  |                        |
| 19 | Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input. | January                |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## CHAPTER 2 - GOVERNANCE

Mpofana is totally committed to good governance. The organisation is structured in such a way to ensure that the eight major characteristics required for good governance is enshrined in its operations. This ensures that it is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. Corruption is minimized, the views of minorities are taken into account and the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society. Above all, the commitment from the leadership both political and administrative is essential to maintain good governance.

### POLITICAL AND ADMINISTRATIVE GOVERNANCE

#### 2.1 Political Governance

Mpofana Municipality is governed by its Council which seeks to oversee that the needs of the people are taken care of. The Constitution of the Republic of South Africa, 1996, Chapter 7, Section 160 (1) defines the role of Council as being:

- (a) (making) decisions concerning the exercise of all the powers and the performance of all the functions of the municipality;
- (b) (electing) its chairperson;
- (c) (electing) an executive committee and other committees, subject to national legislation;
- (d) (employing) personnel that are necessary for the effective performance of its functions.

There are seven Councillors that constitute Mpofana Local Municipal Council, namely

- Cllr N.J. Mpangase (Mayor/Speaker)
- Cllr X.M. Duma
- Cllr A.Z. Dladla
- Cllr J.S. Shabalala
- Cllr B.A. Mhlanzi
- Cllr K Dennychen
- Cllr S.Y. Mhlongo

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## MUNICIPAL COUNCIL



**Her Worship Mayor NJ Mpangase**



**Cllr XM Duma (ANC Ward 1)**



**Cllr ZA Dladla (ANC Ward 2)**



**Cllr JS Shabalala( ANC Ward 3)**



**Cllr BA Mhlanzi (ANC Ward 4)**

'The Future is in our Hands Lets Bu

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**Figure 1PR Cllr K Dennyshcen DA**

The Municipality is plenary with ward committees.

The work of the Council is coordinated by the Mayor who is elected by the Council. The Mayor is at the centre of the system of governance, since executive powers are vested in him/her to manage the day-to-day affairs of the municipality. He/she has an overarching strategic and political responsibility. The key element of the executive model is that executive power is vested in the Mayor, delegated by the Council, as well as the powers assigned by legislation. The Mayor is also the first citizen of the City and attends to ceremonial duties.

The Mayor is assisted by Councillors in a Mayoral Committee. The Mayoral Committee consists of Councillors appointed by the Mayor to serve on the Mayoral Committee. The Mayor together with the Mayoral Committee also oversees the work of the administrative arm. Each member of the Mayoral Committee has a portfolio with specific Functions.

The Municipality also consists of forums that are operational and are as follows:

- Local Labour Forum;



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- Integrated Development Plan Representative Forum;
- Housing Forum/Committee;
- Oversight Committee (MPAC) and;
- Budget Committee

## Analysis Meetings

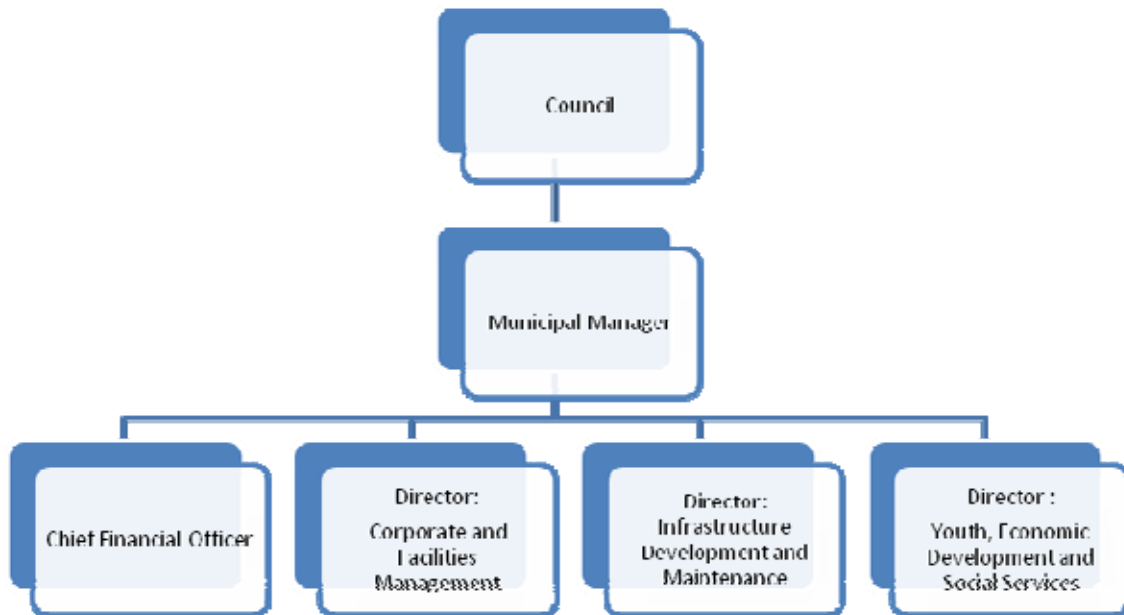
|   | 2011/2012 | 2012/2013 |
|---|-----------|-----------|
| <b>Number of Council Meetings</b>                                   | <b>4</b>  | <b>6</b>  |
| Number of Budget & Treasury Portfolio Committee                     | <b>4</b>  | <b>6</b>  |
| Number of Corporate and Facilities Management Services Committee    | <b>4</b>  | <b>6</b>  |
| Number of Infrastructure Development and Maintenance                | <b>4</b>  | <b>6</b>  |
| Number of Youth, Economic Development and Social Services Committee | <b>4</b>  | <b>6</b>  |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

| Portfolio Committee  | Responsible Head of Department                                |
|--|---|
| Budget & Treasury Portfolio Committee                                | Chief Financial Officer                                       |
| Corporate and Facilities Management Services Committee               | Director: Corporate and Facilities Management Services        |
| Infrastructure Development and Maintenance Committee                 | Director: Infrastructure Development and Maintenance Services |
| Youth, Economic Development and Social Services Committee            | Director : Youth, Economic Development and Social Services    |
| Minutes of all the above committees are tabled at Council for noting |   |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

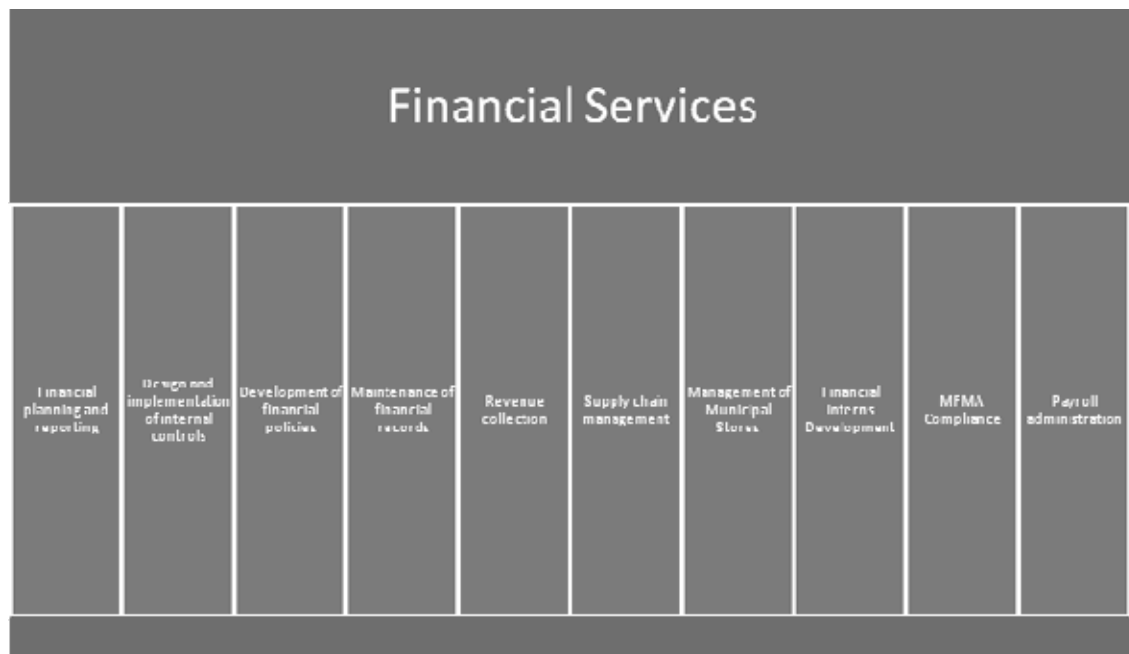
## ADMINISTRATIVE GOVERNANCE



As depicted in the organogram above, the Mpozana Municipality has five departments; each department is headed by the director employed in line with Section 57 of the Municipal Systems Act No. 32 of 2000. There were two vacant positions during the year under review. All directors reports to the Municipal Manager whom in turn reports to Council. The Municipal Manager is assisted by the Internal Audit Activity and the independent Audit Committee in meeting his accountability requirements as prescribed in the MFMA. The Internal Audit Activity is shared with local municipalities within uMgungundlovu District and is housed in Hilton.

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## 3.2.1 Departmental Functions



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Corporate and Facilities Management Services

|  |                             |                    |                                |                  |                                |               |  |                               |                  |   |  |
|--|-----------------------------|--------------------|--------------------------------|------------------|--------------------------------|---------------|--|-------------------------------|------------------|---|--|
| Human Resources Management and Development | Compliance with Legislation | Reporting by Users | Road Safety Traffic Management | Waste Management | Parks and Buildings Management | Call Bookings | Facilities Management and Communication Strategy | Management of Ward Committees | Asset Management | Information and Communication Technology Administration | Support the Mayor and Council Activities |
|--|-----------------------------|--------------------|--------------------------------|------------------|--------------------------------|---------------|--|-------------------------------|------------------|---|--|

## Infrastructure Development and Maintenance

|                             |   |       |             |                  |                   |                      |                         |                         |
|-----------------------------|---|-------|-------------|------------------|-------------------|----------------------|-------------------------|-------------------------|
| Provision of Basic Services | Mobilisation of resources to continuously improve the level and quality of service delivery | Roads | Electricity | Waste Management | Public Facilities | Storm water Drainage | Construction management | Infrastructure Planning |
|-----------------------------|---|-------|-------------|------------------|-------------------|----------------------|-------------------------|-------------------------|

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## Youth, Economic and Community Services

|  |  |  |   |   |  |   |   |   |   |  |  |
|--|--|--|---|---|--|---|---|---|---|--|--|
| To create and ensure a conducive environment for economic growth and development | To promote and ensure coordinated land use planning and management | To identify specific development initiatives to empower women, in particular rural women | To ensure development of the Youth Development Strategy | To ensure access to quality primary health care | To ensure improved and adequate access to educational facilities | To ensure all communities have access to basic community facilities | To promote sound environmental management practices | To ensure adequate access to proper housing for all | To promote access to work and culture opportunities | To eradicate the problem and easy access to sports and recreational facilities | To encourage participation in sporting codes for development |
|--|--|--|---|---|--|---|---|---|---|--|--|

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## INTERGOVERNMENTAL RELATIONS

### 2.1 INTERGOVERNMENTAL RELATIONS

The Inter-governmental Relations Framework Act, (Act No 13 of 2005), requires all spheres of government to coordinate, communicate, align and integrate service delivery effectively, to ensure access to services. In this regard the Municipality complies with the provisions of the Act.

Mpofana Municipality participates in the Provincial and District MIG forum. These forums provide a platform for engagement on the approval of projects and for coordination and monitoring of expenditure on projects which were previously funded under Municipal Infrastructure Grant projects.

uMgungundlovu District has adopted a Cluster Model to share best practices amongst its Local Municipalities. These clusters are chaired by the Municipal Manager of all participating Municipalities.

The Municipality also has entered into shared services on the following functions: Internal Audit, Development and Planning Services and Geographic Information System (GIS).

The Municipality also participates in the Provincial Housing Coordinating forum where parties look into the Human Settlement Grant funded projects, based on the allocation granted for the province.

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## **PUBLIC PARTICIPATION**



The functional public participation structure for the municipality are :

IDP Representative Forum

Planning Co-ordinating Committee

District Wide Cluster Forums (Municipal Managers Forum, Mayors Forum and District Clusters)

## **WARD COMMITTEE STRUCTURES**

Section 152(1)(e) of the Constitution of the Republic of South Africa, read together with Section 72 (1) and (2) of the Municipal Structures Act (Act 117 of 1998) give a direct mandate to Municipalities to encourage the involvement of communities and community organizations in matters of local government and to establish community participatory systems.



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Sections 8 (g and h), 9 (f) and 72 of the Structures Act, authorise Municipalities to establish ward participatory systems as mechanisms to enhance participatory democracy in local government.

Accordingly, 4 ward committees are operational in the Mpofana Municipality. A Ward Committee consists of the relevant Ward Councillor, who automatically assumes chairpersonship of the committee, and ten (10) other members. This composition is in terms of Section 73 (2) (a) and (b) of the Municipal Structures Act, which further states that the other ten (10) members should be elected into the Ward Committee. The composition of ward committees takes into cognizance issues of gender, disability groups, civil society, religious groups and any other organized groups within the community.

The primary objective of the ward committee is to enhance public participation of the community of Mpofana in the programmes of the Municipality.

A public Participation section established in the Mayor under the and supports the Mayor, is responsible to ensure that the ward committees are functional in line with an approved Ward Committee policy.

Ward Committee members have been assigned portfolios aligned to the IDP priorities to ensure that issues pertaining to communities and the IDP are aligned.

## **IDP PARTICIPATION AND ALIGNMENT**

The 2012-2013 IDP has marked the second year of the third generation of the IDPs. The Municipality's IDP process had once again went through the exercise of public participation and the community needs and concerns are recorded. The Municipal Systems Act (as amended) has prompted changes in the way in which the Council plans for the future of the municipality. It also provides greater scope for communities to make their own choices about what the Council does and how.

This legislation requires Council to undertake an exercise, at least once in every five years, to identify community development priorities. These development priorities are determined with

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active participation by affected communities. These priorities form the basis for the long-term integrated development plan.

Since the first term of Council in 2000-2005, the Council has been consulting with members of the community, local business community and community organisation to determine the priorities of the people of Mpofana. Along with the development priorities for the second term of the Council (2006-2011), these priorities were formulated based on the information gathered on social dynamics, service provision and people's perception of the Municipality's strengths, weaknesses, opportunities, and threats.

| IDP Participation and Alignment Criteria                                | Yes / No |
|---|----------|
| Does the Municipality Have Impact, Outcome, Input, output, indicators>  | Yes      |
| Does the IDP have priorities, objectives, KPI's, development strategies | Yes      |
| Does the IDP have multi-year targets                                    | No       |
| Are the above aligned and can they calculate into a score?              | Yes      |
| Does the Budget align directly to the KPI's in the strategic plan?      | Yes      |
| Does the IDP KPI's align to Section 57 Managers                         | Yes      |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |     |
|--|-----|
| Does the IDP KPI's lead to functional area KPI's as per the SDBIP?           | Yes |
| Do the IDP KPI's align with the provincial KPI's on the 12 Outcomes?         | Yes |
| Were the Indicators communicated to the public                               | Yes |
| Were the four quarter align reports submitted within stipulated time frames? | No  |

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## CORPORATE GOVERNANCE

In general, corporate governance is perceived as a normative principle of administrative law, which obliges any institution to perform its functions in a manner that promotes the values of efficiency, non-corruptibility, and responsiveness to civil society. The principle of good governance has also been espoused in the context of the internal operations of both the public and private sector organisations. In this way, corporate decision-making strategies integrate the principle of good governance and ensure that public interests and employees are taken into account.

## RISK MANAGEMENT

Section 62 (i) of the MFMA required that the municipality have and maintain an effective, efficient and transparent system of risk management. The Municipality undertook to implement and comply with this section and this resulted in the development of the Risk Action Plan through a workshop which was held near the end of the financial year 2011/12 with the assistance of Internal Audit Activity. A risk register was compiled and approved by the Audit and Performance Management Committee. Furthermore a Risk Management Strategy was developed, however due to the absence of the Risk Officer the municipality was not in the position to monitor and implement actions that were agreed to during the workshop.

To 5 Risks

- Inability to attract Investments.
- Inability to attract and retain skills personnel.
- High Number of indigent families.
- High Number of unemployed Youth.
- Inability to maintain municipal infrastructure.

## ANTI-CORRUPTION AND FRAUD

**"Ultimately, the struggle against corruption depends upon our sense of morality which tells us that our own egoistic interests do not come before those of public interest. We can take all kinds of preventative measures, and they can be broken down and subverted. But if the moral fibre of**

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**our public servants in the delivery of public services is high, then no amount of corruption can subvert our preventative measures" - Dr Dullar Omar (Fighting Corruption: Strategies for Prevention).**

The Municipality is committed to a free corruption and fraud environment. The municipality has developed the Anti-fraud policy to guide the municipality on matters pertaining to fraud, the development of the policy document is an illustration that the Municipality does not tolerate fraudulent or corrupt activities whether internal or external to the Municipality. The Internal Audit Activity assisted in communicating the policy and workshops were conducted.

The Municipality believes that if we are honest and open in our everyday dealings and communications with other people, if we fulfil our commitment at all times and practice trust, tolerance and respect, only then can we achieve dignity and integrity. Every day of our lives we are faced with choices and easy options that are filled with promises of wealth. Make sure our heart and our head agree on the honest choice, however difficult it may be. Remember it is the nature of our environments, which is tempting. We need to take responsibility for our choices. It is becoming increasingly difficult to stay honest and open, especially in light of the ever-changing environment around us. Our only obligation in life is to be true to ourselves and our commitments. In the long run we will achieve more in life than those who sold out their principles for the short-term gain.

We expect people to trust us, and therefore it is up to us to give them the reasons to trust us. Our reputation of today will be based on our actions of the past. Our actions today are the building blocks of our future reputation.

People at our Municipality hold dearly specific rich and positive values. Therefore, our employees' commitment to these values is the only single weapon against corruption and fraud.

## SUPPLY CHAIN

The Municipality has established a Supply Chain Unit in line with the internal Supply Chain Management (SCM) Policy and Supply Chain Management Regulations. The division is headed by the Accountant who reports directly to the Chief Financial Officer.

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The Municipality has a policy on SCM which has been implemented fully throughout the year. There were not indicators of abuse in the implementation of the SCM policy of the municipality during the year under review.

The calling for tenders to secure supplies of goods and services is an integral part of SCM, as legislation compels public institutions to procure goods and services through this process. A thorough knowledge of the different phases of the tendering process and the accompanying procedures is therefore necessary to ensure that public officials procure goods and services timely and according to their requirements.

In line with the Municipal Finance Management Act (MFMA), the Accounting Officer has approved the Bid Committees. The Municipality ensures that the tender process is fair, Transparent, equitable and cost effective.

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## BY- LAWS

| BY- LAWS INTRODUCED DURING 2012/2013 FINANCIAL YEAR |          |  |                              |                           |                     |
|---|----------|--|------------------------------|---------------------------|---------------------|
| New Developed                                       | Reviewed | Public Participation undertaken before by-Law approved (Y/N) | Date of Public Participation | By- Law Gazetted (Yes/No) | Date of Publication |
| Encroachment  | N/A      |  |                              | No                        | March 2012          |
| Credit Control                                      | N/A      |  |                              | No                        | March 2012          |
| Supply of Electricity                               | N/A      |  |                              | No                        | April 2012          |
| Tariffs   | N/A      |  |                              | No                        | April 2012          |
| Keeping of Animal                                   | N/A      |  |                              | No                        | April 2012          |
| Dogs and Cats                                       | N/A      |  |                              | No                        | April 2012          |
| Advertisement                                       | N/A      |  |                              | No                        | April 2012          |
| Street Trading                                      | N/A      |  |                              | No                        | October 2011        |

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## WEBSITE

| Municipal Website: Content and Currency of Material   |          |                 |
|---|----------|-----------------|
| Documents Published on the Municipal Website  | (Yes/No) | Publishing Date |
| Current annual adjustment budget and all budget related documents   | No       | Not applicable  |
| All Current budget Policies   | Yes      | May 2012        |
| The previous annual report 2010/2011  | Yes      | May 2012        |
| All current performance agreements required in terms of section 57 (1) (b) of the Municipal Systems Act 2011/2012 and resulting scorecards. | Yes      | April 2013      |
| All service level agreements 2011/2012  | No       | Not applicable  |
| All long term borrowings contracts 2011/2012  | None     | Not Applicable  |



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|  |      |                |
|--|------|----------------|
| All supply chain management contracts above a prescribed value for 2011/2012   | None | Not Applicable |
| An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during 2011/2012 | No   | Not Applicable |
| Contracts agreed in 2011/2012 to which subsection (1) of section 33 apply, subject to subsection (3) of that section.                                      | None | Not Applicable |
| Public Private Partnership agreements referred to in section 120 made in 2011/2012   | None | Not applicable |
| All quarterly reports tabled in Council in terms of Section 52 (d) Section 71 during 2011/2012   | No   | Not Applicable |
| Any other information required in terms of Section 75 of the Municipal Finance Management Act.   | None | Not Applicable |

The municipality does not have a dedicated computer to be accessed by the members of the community, however the community have access to the computer at our library for the purpose as envisaged in Section 75 of the MFMA.

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## PUBLIC SATISFACTION ON MUNICIPAL SERVICES

Due to financial constraints the municipality has not been in a position to conduct a satisfaction survey for the year under review.



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## CHAPTER 3: SERVICE DELIVERY PERFORMANCE

### BASIC SERVICES

#### WATER PROVISION



Water and sanitation is one of the most basic needs in the Municipality. There is still a major backlog in terms of water and sanitation in Ward 2 and 4 in the Municipality. These two wards are mostly rural in nature with a fragmented household landscape and this could be a contributing factor in the slow progress of service delivery in these areas.

The Mpofana Municipality has seen it imperative to work collaborately with uMgungundlovu District Municipality, who at present, is handling the services of water and sanitation for our municipality, in addressing the issue of water and sanitation in the municipality specifically in Wards 2 and 4. It is in the plan of the Municipality to at least have the majority of households having water accessible inside their dwelling houses or inside the yard as much as possible. Crucial to achieving this will be the establishment of more dandified settlements in wards 1 and 2 hence bridging the divide in the economies of scale.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Water Facilities

Table 8 below indicates an improvement in the service delivery of water within the municipality. There are more households accessing water inside the dwelling compared to the 2001 Census whilst there's a decline in other alternative means of accessing water. This could have been a resultant of the increase in the number of households being built with access to water inside the dwelling. The majority of these households are located in ward 1 and 3 of the municipality. The most significant project giving rise to this trend is the Townview Housing project which is yet to be completed. (See table below):

### *Water Source*

| Water Provision               | Census 2001 | Census 2007 | Census 2011 |
|-------------------------------|-------------|-------------|-------------|
| In dwelling                   | 29,6        | 44,4        | 48.7        |
| Inside Yard                   | 37,5        | 30,4        | 30.6        |
| Access point outside the yard | 8,9         | 7,7         | 6           |
| Borehole                      | 3,2         | 1,7         | 1           |
| Spring                        | 2,5         | 1,6         | 1.2         |
| Dam / Pool                    | 4,3         | 1,6         | 1           |
| River /Stream                 | 12,3        | 8,5         | 8.5         |
| Water vendor                  | 0,1         | 2,0         | 1           |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|                |             |             |             |
|----------------|-------------|-------------|-------------|
| Rainwater Tank | 0,5         | 1,9         | 1,9         |
| Other          | 1,1         | 0,2         | 0,1         |
| <b>Total</b>   | <b>100%</b> | <b>100%</b> | <b>100%</b> |

### WASTE WATER (SANITATION) PROVISION

The availability of toilet facilities has been no exception in the improvement of service delivery since 2001 within the Mpofana Municipality. There has been an approximately 16% increase in the number of flush toilet that are connected to a sewerage system with a significant drop in the bucket system. The increase in the construction of RDP houses could be the contributing factor to this trend as with the water provision. Interestingly enough, there has been a rise in the number of households using the dry toilet facility and it's not clear as to why as these are usually used for special events( See *Table* below):

#### *Toilet Facilities*

| Toilet Facilities                           | Census 2001 | Census 2007 | Census 2011 |
|---|-------------|-------------|-------------|
| Flush toilet (connected to sewerage system) | 41,6        | 58,5        | 60,6        |
| Flush toilet (with septic tank)             | 8,5         | 2,4         | 2,4         |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|                                    |             |             |             |
|------------------------------------|-------------|-------------|-------------|
| Dry toilet facility                | -           | 6,5         | 7.0         |
| Chemical toilet                    | 2,2         | 2,9         | 2.9         |
| Pit latrine with ventilation (VIP) | 4,2         | 4,0         | 4.0         |
| Pit Latrine without ventilation    | 18,0        | 12,1        | 10          |
| Bucket latrine                     | 5,6         | 0,2         | 0.1         |
| None                               | 20,0        | 9,0         | 9.0         |
| <b>Total</b>                       | <b>100%</b> | <b>100%</b> | <b>100%</b> |

### ELECTRICITY

There has been a substantial improvement in the percentages of households that use electricity for lighting purposes when comparing the Census 2001 against the recently conducted 2007 Community Survey (See Table Below):

*Table 10: Energy / Fuel for Lighting*

| Energy / Fuel | Census 2001 | Census 2007 | Census 2011 |
|---------------|-------------|-------------|-------------|
| Electricity   | 53,4        | 71,9        | 72.0        |
| Gas           | 0,3         | -           | -           |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|              |             |             |             |
|--------------|-------------|-------------|-------------|
| Paraffin     | 0,7         | 1,4         | 1.4         |
| Candles      | 44,8        | 25,8        | 26          |
| Solar        | 0,3         | 0,2         | 0.2         |
| Other        | 0,5         | 0,7         | 0.6         |
| <b>Total</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

The majority of the households using electricity are located in the urban centers of the municipality, more especially Mooi River, Bruntville and Rosetta. Within the current context of the electricity crisis in South Africa, it has been seen imperative for the municipality to promote alternative sources of electricity; hence solar system project is in pipeline.

Almost 56.5% of the total households in the Municipality make use of wood for heating purposes. The majority of these households are located in the rural part of the municipality. This fact raises a need for more electricity supply within these areas of the municipal area. This is an indication that natural forests are depleting, which poses downstream environmental concerns. More electricity supply is a strategy towards addressing this issue.

The two tables below highlight the means of energy used by the Mpofana Municipality Households:

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

### *Energy / Fuel for Heating*

| <b>Energy / Fuel</b> | <b>Census 2001</b> | <b>Census 2007</b> | <b>Census 2011</b> |
|----------------------|--------------------|--------------------|--------------------|
| Electricity          | 32,6               | 48,7               | 53.4               |
| Gas                  | 1,5                | 1,6                | 1.0                |
| Paraffin             | 5,4                | 3,0                | 2.0                |
| Wood                 | 56,5               | 43,3               | 40.0               |
| Coal                 | 1,4                | 2,1                | 1.4                |
| Animal Dung          | 0,3                | -                  | 0.                 |
| Solar                | 0,1                | -                  | 0.1                |
| Other                | 2,1                | 1,2                | 2.1                |
| <b>TOTAL</b>         | <b>100%</b>        | <b>100%</b>        | <b>100%</b>        |



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## WASTE MANAGEMENT



Refuse disposal is critical in creating an enabling environment for every resident of the municipality, more especially the younger generation as they are more exposed to hazardous conditions. The Municipality has improved the collection of refuse within its jurisdiction comparing the Census 2001 and the 2007 Community Survey by approximately 10%. Over and above the improvement in the collection of refuse, as part of the implementation of the Property Rates Act, the municipality is implementing a 100% rebate on all residential properties in connection to refuse removal.



Over and above the mentioned municipal activities the Municipality has introduced a recycling center which is monitored closely by the Housing Officer in consultation with the Wildlands Conservation Trust.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## HOUSING



The KwaZulu-Natal Department of Human Settlements and Public Works (KZNDoHSPW) has delivered 25 940 housing units in the 2012-2013 financial year. We are proud to report that Mpofana Municipality housing project has also has an impact in the KNDohSPW delivery. We believe that the municipality has delivered one of the best houses in the province. The Municipality is committed to show case with more Housing delivery once the land issues are address

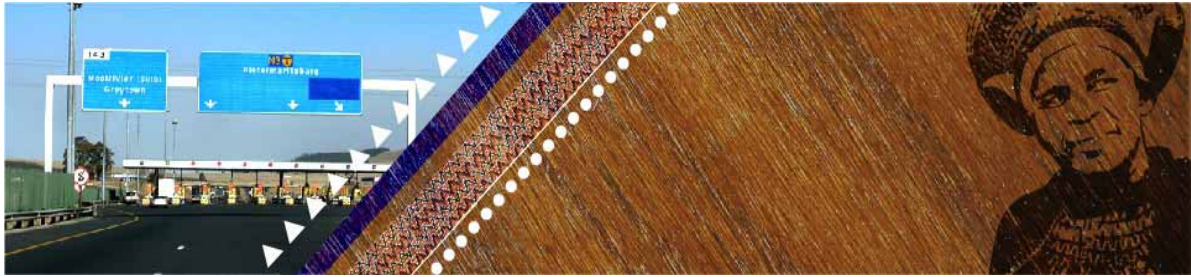
## FREE BASIC SERVICES AND INDIGENT SUPPORT

Another challenge is the roll out of Free Basic Electricity within the Municipality. A strategy to roll out this service has been developed and will be considered during the 2014/2015. Further to this, maintenance, upgrade and rehabilitation of electricity infrastructure through the ring-fencing of the function for the transfer to RED's, is identified as an important issue.

In terms of national government mandate,Mpofana is meant to provide 50Kw of free basic electricity to indigent households including areas licenced under Eskom. Currently, we are in the process of compiling an indigent register which will assist in rolling out the free basic services.

## ROAD TRANSPORT

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT



## **ROADS**

The Municipality is responsible for a major access roads that are not maintained by Department of Transport. Due to very bad weather conditions we have experience over the year some a dilapidating. Through many years of use without maintenance or hardening, many have developed in deep donges where storm-water continuously deepens them. However the municipality, where it can have repaired some under very tight budgetary constraints. The business plan has been drafted to seek for funding to resurface most of our roads especially those that surrounds our town.

## **TRANSPORT**

The Majority of public transport facilities in the Mpofana Municipality area is informal and requires serious upgrading. Although there is an issues of space to provide a state of the art Taxi Rank in Bruntville and surrounding areas the municipality is putting a plan together to identify sports where bus/taxi shelter can be erected.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **WASTE WATER (STORM WATER DRAINAGE)**



There is not storm water master plan resulting in adhoc projects being identified where complaints are received. Problems are experienced in both the CBD and in the township area where concrete pipes are collapsing owing to fatigue from heavy rains and traffic loads. This has resulted in most of the CBD infrastructure becoming aged at a very rapid pace.

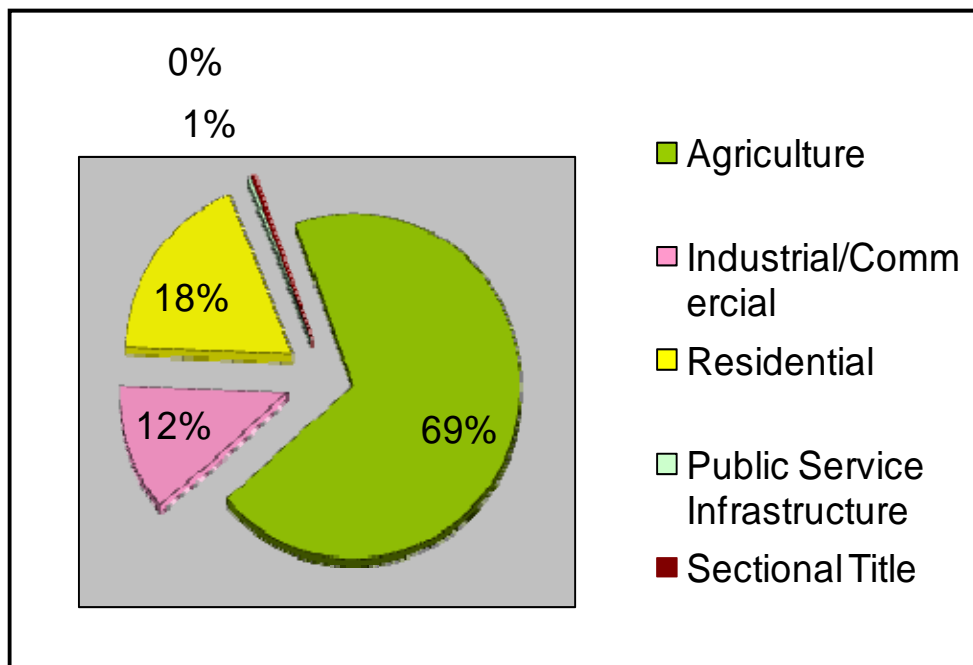
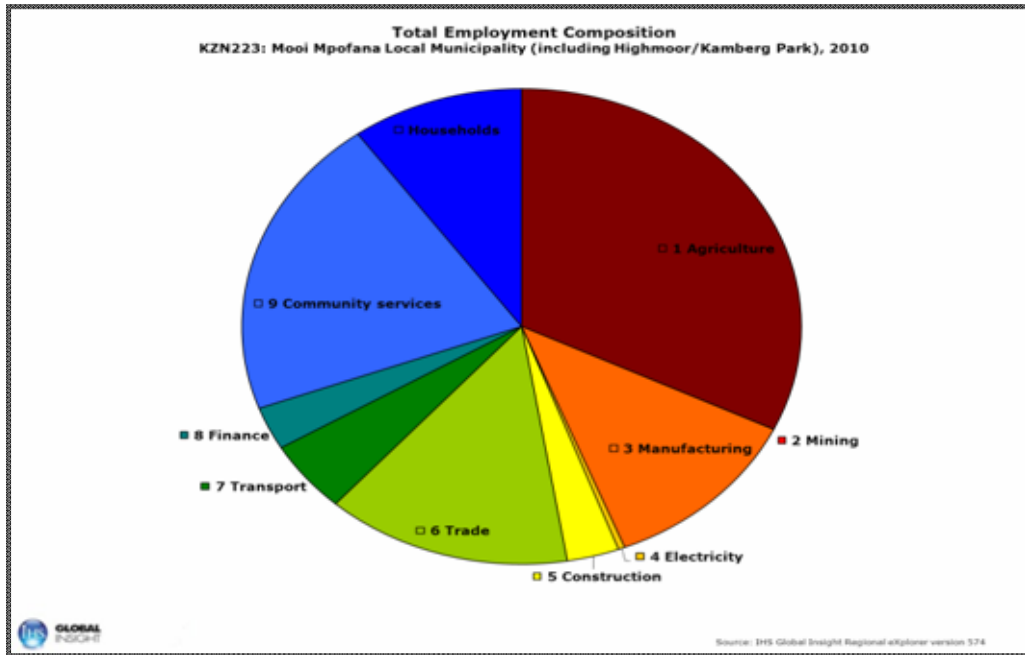
## **PLANNING AND DEVELOPMENT**

### **PLANNING**

The Municipality has entered into a shared service in terms of Planning and Development uMngeni Municipality is a leading partner in this regard. However the municipality is planning to capacitate this section to assist with all administrative related issues.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## LOCAL ECONOMIC DEVELOPMENT



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

Diagram above reveals that agriculture is the dominant sector according to the employment composition. This is of no surprise since Mpofana Municipality's land is agriculture. See Diagram , bellows which shows that 69% of the municipality is zoned agriculture.

There are quite a number of individuals who are **self-employed** through the formal and informal arts and craft sector of the economy. This might be related to the location of the municipality within the Midlands Meander and along the N3. This is a positive trend for the municipality to promote the tourism sector.

The unemployment rate has a direct negative impact on the affordability of municipal services and therefore affects Municipality's cash flow situation negatively. The high unemployment rate also suggests that economic growth and job creation must be considered as one of the key strategic issues for the Municipality. The upgrade of CBD roads forms part of the current IDP operational projects and will boost investor confidence in the Town of Mooi River.

**Table** below indicates that sectors that are unspecified are the most dominant sectors of employment in the Mpofana Municipality. These could relate to street vendors; tuck-shop owners; taverns, etc.



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## *Sector of Work for the 15 – 65 Years*

| Industry                                 | No. of Persons | Percentage per Sector |
|--|----------------|-----------------------|
| Agriculture/Hunting/Forestry/Fishing     | 685            | 7,1%                  |
| Mining/Quarrying                         | 16             | 0,16%                 |
| Manufacturing                            | 990            | 10,3%                 |
| Electricity/Gas/Water Supply             | 15             | 0,15%                 |
| Construction                             | 486            | 5,08%                 |
| Wholesale/Retail Trade                   | 1088           | 11,37%                |
| Transport/Storage/Communication          | 235            | 2,45%                 |
| Financial/Insurance/Real estate/Business | 520            | 5,43%                 |
| Community/Social/Personal services       | 1092           | 11,41%                |
| Other and not adequately defined         | 1176           | 12,29%                |
| Unspecified                              | 3261           | 34,09%                |
| <b>TOTAL</b>                             | <b>9564</b>    | <b>100%</b>           |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

The municipality has seen more entrepreneurs engaging in small businesses with assistance from the LED section and this will be vital for economic development. The review and implementation of the LED Strategy is seen as one of the most important tools in addressing economic development hence, it has been included in the current IDP Review as a strategic initiative by the municipality.

There seems to be a need that focus is given to other sectors through private-public initiatives. Some of the private sectors have shown interest to partner with the Municipality to develop middle to high income housing. As Municipality we feel this is the good strategy that might strengthen the construction industry within the municipality.

## **Tourism**

“Local tourism” is defined as a function of municipalities within the Constitution. Municipalities have a responsibility to exercise the developmental mandate across all functions delivered at local level including the development and marketing of the tourism sector.

The tourism sector is starting to play a pivotal role in the provision of employment and economic growth. There have been a number of agric-tourism related applications submitted to the municipality and have been encouraging for the future economic growth of the municipality within the agricultural sector. The Spatial Development Framework has in this regard taken consideration of the tourism potential within the municipality and identified nodes that will promote the sector.

While accommodation is important as a tourist activity in itself, the use of such accommodation facilities is often reliant on their being tourism activities in the area for tourists to undertake when not resting. The following is a list of tourism activities that have been established within Mpofana land:

- Recreational Tourism
- Adventure Tourism
- Nature Based Tourism
- Cultural and Historical Tourism
- Arts and Craft Tourism
- Events tourism
- Agri-tourism



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

There seem to be a need also that the Municipality preserves its agriculturally viable land. This will be achieved with assistance from the Department of Agriculture.

## **SMALL MEDIUM AND MICRO ENTERPRISES (SMMES) IN MPOFANA**

The growth rate and survival of SMMEs in the Municipality has been generally been very low to no existence. Acknowledged as these are indicators of economic growth. However, the UKZN research indicates that most SMMEs in Mpofana do not view the support measure for enterprises offered by the District as being particularly effective. The following were viewed as measures that would be useful to support SMMEs:

- Provide incentives for investment
- Improve business support
- Provide information on development
- Increase local purchasing
- Promote PPP
- Assist business in marketing

Improving the small business sector and enhancing the second economy for economic growth are critical to addressing the high unemployment levels within the municipality.

There are currently approximately 263 registered SMMEs serving the Mpofana Municipality. The Mpofana Municipality's IDP Review has taken cognizance of the importance of SMMEs in the economic growth of the municipality. SMMEs should however not only focus in urban areas but also in rural areas of the municipality. In this regard, the municipality in the next five years will engage with rural co-operatives and SMMEs in order to enhance this sphere of the economy.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## SPORT AND RECREATION

The below indicates the availability of recreational facilities, although some Wards are still without. Most of the available facilities require significant upgrading and revamping in order to fully benefit in sports, arts and cultural aspect of the municipality. The aim of Sports and Recreation is to improve the quality of all South Africans by promoting participation in sports and recreation in the country, and through participation of South African sportspersons and teams in international sporting events.

The above statement encapsulates the overall South African picture in terms of sports and recreation but it is at municipal level where everything has to be planned accordingly to fully utilize the talent at international level. To this end, the Mpofana Municipality has a number of interventions that assist in fully capitalising on this aspect of the community. The municipality has had a great impact in the province in the performing arts and would require the municipality to invest in this aspect.

### *Recreational Facilities*

| Location | Facilities   | IDP listed Projects  |
|----------|--|--|
| Ward 1   | <ul style="list-style-type: none"> <li>Tennis Court but needs upgrading</li> <li>Mooi River Town Hall</li> <li>Penendale Sportfield but needs upgrade</li> </ul> | <ul style="list-style-type: none"> <li>Upgrade of Mooi River Tennis court</li> <li>Townview Sportsfield</li> </ul>   |
| Ward 2   | <ul style="list-style-type: none"> <li>Multi Purpose Centre</li> </ul>   | <ul style="list-style-type: none"> <li>Rondebosch Stadium</li> <li>Rietvlei Stadium</li> </ul>   |
| Ward 3   | <ul style="list-style-type: none"> <li>Basketball Court</li> <li>BruntvilleSportfield</li> <li>Bruntville Community Hall</li> </ul>                              | <ul style="list-style-type: none"> <li>Upgrade of BruntvilleSportsfield</li> <li>Bruntville Recreational Park (Combo courts)</li> <li>Mshayazafe Botanical Park</li> </ul> |
| Ward 4   | <ul style="list-style-type: none"> <li>Middelrus Community Hall</li> <li>Middelrus Combo courts</li> <li>MiddelrusSportfield</li> </ul>                          | <ul style="list-style-type: none"> <li>Bhumaneni Stadium</li> <li>Waterfall Stadium</li> <li>Mdubuzweni Stadium</li> <li>Middelrus Stadium</li> </ul>                      |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## CHAPTER 4 : ORGANISATIONAL DEVELOPMENT AND PERFORMANCE

### EMPLOYEE TOTALS, TURNOVER AND VACANCIES

| NUMBER OF POSITIONS PER DEPARTMENT AS PER APPROVED ORGANOGRAM |                  |
|---|------------------|
| Office of the Mayor   | 2                |
| Municipal Managers Officer                                    | 33               |
| Financial Services  | 17               |
| Infrastructure Development and Maintenance                    | 49               |
| Youth, Economic Development and Social Services               | 22               |
| Corporate and Facilities Management Services                  | Combined with MM |

### VACANT POSITIONS PER DEPARTMENT

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |   |
|---|---|
| Office of the Mayor                             | 0 |
| Municipal Managers Officer                      | 1 |
| Financial Services                              |   |
| Infrastructure Development and Maintenance      |   |
| Youth, Economic Development and Social Services | 1 |
| Corporate and Facilities Management Services    |   |

| APPOINTMENTS PER DEPARTMENT                     |   |
|---|---|
| Office of the Mayor                             | 0 |
| Municipal Managers Officer                      | 0 |
| Financial Services                              | 5 |
| Infrastructure Development and Maintenance      | 0 |
| Youth, Economic Development and Social Services | 0 |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

Corporate and Facilities Management Services

| RESIGNATIONS PER DEPARTMENT                     |   |
|---|---|
| Office of the Mayor                             | 0 |
| Municipal Managers Officer                      | 1 |
| Financial Services                              | 1 |
| Infrastructure Development and Maintenance      | 3 |
| Youth, Economic Development and Social Services | 2 |
| Corporate and Facilities Management Services    | 0 |

| DEATHS PER DEPARTMENT                      |  |
|--|--|
| Municipal Managers Officer                 | THERE WERE NO DEATHS FOR THE PERIOD UNDER REVIEW |
| Financial Services                         |  |
| Infrastructure Development and Maintenance |  |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |  |
|---|--|
| Youth, Economic Development and Social Services |  |
| Corporate and Facilities Management Services    |  |

| DISMISSALS PER DEPARTMENT                       |   |
|---|---|
| Municipal Managers Officer                      | THERE WERE NOT DISMISSALS FOR THE PERIOD UNDER REVIEW |
| Financial Services                              |   |
| Infrastructure Development and Maintenance      |   |
| Youth, Economic Development and Social Services |   |
| Corporate and Facilities Management Services    |   |

| RETIREMENTS PER DEPARTMENT |                                    |
|----------------------------|------------------------------------|
| Municipal Managers Officer | THERE WERE NOT RETIREMENTS FOR THE |
| Financial Services         |                                    |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |                     |
|---|---------------------|
| Infrastructure Development and Maintenance      | PEDIOR UNDER REVIEW |
| Youth, Economic Development and Social Services |                     |
| Corporate and Facilities Management Services    |                     |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## MANAGING THE MUNICIPAL WORKFORCE

### POLICIES

| HR POLICIES AND PLANS |   |           |          |  |
|-----------------------|---|-----------|----------|--|
|                       | Name of Policy                          | Completed | Reviewed | Date Adopted by Council/Comment on Failure to adopt. |
| 1                     | Credit Control & Debt Collection Policy | Yes       | Yes      | June 2012  |
| 2                     | Tarrif Policy and Notices               | Yes       | Yes      | June 20112   |
| 3                     | Code of Ethics for Municipal Staff      | Yes       | Yes      | June 2012  |
| 4                     | Whistle Blowing Policy                  | Yes       | Yes      | June 2012  |
| 5                     | Compliants Management Polucy            | Yes       | Yes      | June 12  |
| 6                     | Communication Strategy Policy           | Yes       | Yes      | June 2012  |
| 7                     | Overtime Policy                         | Yes       | Yes      | June 2012  |
| 8                     | Workplace Policy on HIV/AIDS            | Yes       | Yes      | June 2012  |



## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|    |                             |     |     |           |
|----|-----------------------------|-----|-----|-----------|
| 9. | Investment Incentive Policy | Yes | Yes | June 2012 |
|----|-----------------------------|-----|-----|-----------|

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### PERFORMANCE REWARDS

The Municipality is in the process of re engineering the organizational performance management system. The individual performance management will be introduced in 2014/2015 financial year. This will be to ensure high level of performance by each employee which will assist the Municipality due to the fact that this will assist in the overall Municipal performance.

### CAPACITATING THE MUNICIPAL WORKFORCE

#### SKILLS DEVELOPMENT AND TRAINING

The Municipality has several well developed capacity development programmes and systems in place including annual workplace skills plans (WSPs), and internship. All section 57 attends competency level training funded by the Institute of Municipal Finance Officers (IMFO).

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## CHAPTER 5: FINANCIAL PERFORMANCE

### SOURCE OF FINANCE

| SOURCE | PROJECT  | AMOUNT        |
|--------|--|---------------|
| MIG    | Gwala Park Road                                    | 16 348 883.00 |
| MIG    | Mpofana & Craigiebum Access<br>Gravel Road         | 5 237 559.03  |
| MIG    | Phumlas Road Rehabilitation                        | 10 603 963.65 |
| MIG    | Rehabilitation of Phumlas<br>Internal Road         | 10 199 079.12 |
| MIG    | Rehabilitation of Mooi River<br>CBD Roads          | 11 397 659.80 |
| MIG    | Rehabilitation of Bruntville<br>Clinic Access Road | 8 885 304.07  |
| MIG    | Rehabilitation of Uppertown<br>Main Road           | 17 904 664.97 |
| Total  |  | 80 577 113.64 |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **OTHER FINANCIAL MATTER**

### **GRAP COMPLIANCE**

GRAP is the acronym for Generally Recognised Accounting Practice and it provides the rules by which municipalities are required to maintain their financial accounts. Successful GRAP compliance will ensure that municipal accounts are comparable and more informative for the municipality. It will also ensure that the municipality is more accountable to its citizens and other stakeholders. Information on GRAP compliance is needed to enable National Treasury to assess the pace of progress and consider the implications. The Municipality is fully GRAP compliant. The current year accounting framework is consistent with the previous year.

The 2012 year requirements as per the Accounting Standards Board will be the improved Standards of GRAP & IGRAPS. IGRAP is the acronym for Improved Generally Recognised Accounting Practice. The purpose of improvements is to clarify matters in the existing standards and to ensure consistency between all GRAP standards. The Municipality has early adopted various Standards of GRAP that have been approved but for which the Minister of Finance has not yet determined an effective date.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## CHAPTER 6: REPORT OF THE AUDITOR GENERAL

### AUDITED FINANCIAL STATEMENTS

|  |  |
|--|--|
| <b>Mpofana Municipality</b><br>Annual Financial Statements for the year ended 30 June 2013<br><b>General Information</b> |  |
| <b>Members of Council</b><br>Mayor<br>Councillors  | Cllr S Mpangase<br>Cllr J Shabalala<br>Cllr Z Dladla<br>Cllr X Duma<br>Cllr S Mhlangi<br>Cllr S Mhlongo<br>Cllr K Denysschen |
| <b>Grading of local authority</b>  | 2  |
| <b>Former Accounting Officer</b>   | Mr M A Madlala<br>Resigned: 31 December 2012   |
| <b>Acting Accounting Officer</b>   | Mr M Links<br>Appointed: 1 January 2013  |
| <b>Former Chief Finance Officer (CFO)</b>  | Miss A P N Ndlovu<br>Resigned: 31 January 2013   |
| <b>Acting Chief Finance Officer (CFO)</b>  | Mrs N N Mbatha<br>Appointed: 1 February 2013   |
| <b>Registered office</b>   | 10 Cloughton Terrace<br>Mool River<br>3300   |
| <b>Municipal Contact details</b>   | 033 263 1221/7700  |
| <b>Postal address</b>  | P O Box 47<br>Mool River<br>3300   |
| <b>Bankers</b>   | First National Bank<br>(Account no.: 63060399607)  |
| <b>Auditors</b>  | The Auditor General  |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The annual financial statements set out on page 7 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by

  
Acting Accounting Officer

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Approval of Annual Financial Statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 47, in terms of Section 120(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local government: Municipal Finance Management Act, 2003 (Act NO. 56 of 2003) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

Acting Accounting Officer:  
August 30, 2013

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Financial Position as at 30 June 2013

| Figures in Rand                             | Note(s) | 2013              | 2012<br>Restated  |
|---|---------|-------------------|-------------------|
| <b>Assets</b>                               |         |                   |                   |
| <b>Current Assets</b>                       |         |                   |                   |
| Inventories                                 | 8       | 253,154           | 44,362            |
| Other receivables                           | 9       | 830,059           | 764,896           |
| VAT receivable                              | 10      | 4,686,150         | -                 |
| Prepayments                                 |         | -                 | 275,413           |
| Consumer debtors                            | 11      | 21,223,536        | 12,048,244        |
| Financial assets - investments              | 6       | 11,952,270        | 18,274,070        |
| Loans and receivables                       | 7       | 417,343           | 330,418           |
| Cash and cash equivalents                   | 12      | 56,799            | 3,950,120         |
|   |         | <b>39,319,280</b> | <b>38,677,522</b> |
| <b>Non-Current Assets</b>                   |         |                   |                   |
| Investment property                         | 2       | 5,336,395         | 5,336,395         |
| Property, plant and equipment               | 3       | 47,603,202        | 41,656,305        |
| Intangible assets                           | 4       | 85,908            | 72,237            |
|   |         | <b>52,994,505</b> | <b>47,063,937</b> |
| <b>Total Assets</b>                         |         | <b>92,313,785</b> | <b>85,741,459</b> |
| <b>Liabilities</b>                          |         |                   |                   |
| <b>Current Liabilities</b>                  |         |                   |                   |
| Finance lease obligation                    | 13      | 1,533,340         | 1,227,222         |
| Payables from exchange transactions         | 17      | 5,321,456         | 7,062,976         |
| VAT payable                                 | 18      | -                 | 887,234           |
| Consumer deposits                           | 19      | 356,862           | 396,501           |
| Employee benefit obligation                 | 5       | 358,000           | 307,000           |
| Unspent conditional grants and receipts     | 14      | 15,785,173        | 15,673,732        |
| Provisions                                  | 15      | 10,928,631        | 10,236,368        |
| Short term portion of long term liabilities | 16      | 140,404           | 110,215           |
| Bank overdraft                              | 12      | 4,536,041         | -                 |
|   |         | <b>39,001,907</b> | <b>35,791,237</b> |
| <b>Non-Current Liabilities</b>              |         |                   |                   |
| Finance lease obligation                    | 13      | 2,265,841         | 2,894,754         |
| Employee benefit obligation                 | 5       | 6,940,000         | 6,477,000         |
| Annuity loan                                | 16      | 1,810             | 151,697           |
|   |         | <b>9,207,651</b>  | <b>9,523,451</b>  |
| <b>Total Liabilities</b>                    |         | <b>48,209,558</b> | <b>45,314,688</b> |
| <b>Net Assets</b>                           |         | <b>44,104,227</b> | <b>40,426,771</b> |
| <b>Net Assets</b>                           |         |                   |                   |
| Accumulated surplus                         |         | <b>44,104,227</b> | <b>37,426,771</b> |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Financial Performance

| Figures in Rand                    | Note(s) | 2013                | 2012                |
|------------------------------------|---------|---------------------|---------------------|
| <b>Revenue</b>                     |         |                     |                     |
| Government grants and subsidies    | 21      | 39,063,041          | 31,559,736          |
| Service charges                    | 22      | 35,877,621          | 46,270,031          |
| Property rates                     | 23      | 8,019,606           | 7,060,453           |
| Property rates - penalties imposed | 24      | 2,223,362           | 2,635,457           |
| Interest revenue                   | 25      | 7,160,000           | 2,024,612           |
| Rental income                      | 26      | 4,696,226           | 2,484,133           |
| Donations income                   | 27      | 18,000              | 434,298             |
| Other income                       |         | 449,362             | 444,385             |
| Licences and permits               |         | 2,701,770           | 3,872,300           |
| Fines                              |         | 364,967             | 364,225             |
| <b>Total revenue</b>               |         | <b>100,463,546</b>  | <b>97,149,637</b>   |
| <b>Expenditure</b>                 |         |                     |                     |
| Personnel                          | 30      | (23,326,187)        | (19,351,375)        |
| Remuneration of councillors        | 31      | (1,818,371)         | (1,844,294)         |
| Depreciation and amortisation      | 33      | (5,780,596)         | (6,111,171)         |
| Reversal of impairments            | 36      | (421,118)           | 1,113,203           |
| Finance costs                      | 35      | (1,871,180)         | (1,423,681)         |
| Debt impairment                    | 29      | (6,870,956)         | (16,352,018)        |
| Repairs and maintenance            |         | (1,093,628)         | (1,148,018)         |
| Bulk purchases                     | 28      | (37,961,014)        | (31,380,265)        |
| Contracted services                | 34      | (5,128,031)         | (3,621,085)         |
| General expenses                   | 32      | (9,204,331)         | (10,952,373)        |
| Bank charges                       |         | (115,940)           | (111,054)           |
| <b>Total expenditure</b>           |         | <b>(93,371,051)</b> | <b>(91,182,931)</b> |
| <b>Surplus for the year</b>        |         | <b>7,092,497</b>    | <b>6,966,606</b>    |
| <b>Attributable to:</b>            |         |                     |                     |
| Owners of the controlling entity   |         | <b>7,092,497</b>    | <b>6,966,606</b>    |



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Changes in Net Assets

| Figures in Rand                                       | Accumulated surplus | Total net assets  |
|---|---------------------|-------------------|
| <b>Balance at 01 July 2011</b>                        | <b>54,689,220</b>   | <b>54,689,220</b> |
| Correction of error (refer to note 42)                | (23,229,055)        | (23,229,055)      |
| Net income (losses) recognised directly in net assets | (23,229,055)        | (23,229,055)      |
| Surplus for the year                                  | 8,959,806           | 8,959,806         |
| Total recognised income and expenses for the year     | (17,292,449)        | (17,292,449)      |
| <b>Balance at 01 July 2012 - restated</b>             | <b>37,426,770</b>   | <b>37,426,770</b> |
| Correction of error (refer to note 42)                | (2,405,049)         | (2,405,049)       |
| Net income (losses) recognised directly in net assets | (2,405,049)         | (2,405,049)       |
| Deficit for the year                                  | 7,082,497           | 7,082,497         |
| Total recognised income and expenses for the year     | 4,677,448           | 4,677,448         |
| <b>Balance at 30 June 2013</b>                        | <b>42,104,218</b>   | <b>42,104,218</b> |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Cash Flow Statement

| Figures in Rand   | Notes(s)  | 2013                | 2012                |
|---|-----------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                 |           |                     |                     |
| <b>Receipts</b>   |           |                     |                     |
| Sale of goods and services                                  |           | 39,913,473          | 60,252,554          |
| Grants  |           | 39,573,764          | 31,348,566          |
| Licences and permits  |           | 2,739,184           | 3,672,209           |
| Interest income   |           | 692,101             | 2,024,612           |
| Other receipts  |           | 818,329             | 1,242,906           |
|   |           | <b>83,732,851</b>   | <b>98,740,967</b>   |
| <b>Payments</b>   |           |                     |                     |
| Employee costs  |           | (28,143,858)        | (21,195,669)        |
| Suppliers and other payments                                |           | (59,047,975)        | (64,462,633)        |
| Finance costs   |           | (1,671,180)         | (1,423,861)         |
|   |           | <b>(88,862,713)</b> | <b>(87,102,163)</b> |
| <b>Net cash flows from operating activities</b>             | <b>39</b> | <b>(2,129,862)</b>  | <b>11,638,784</b>   |
| <b>Cash flows from investing activities</b>                 |           |                     |                     |
| Purchase of property, plant and equipment                   |           | (12,083,382)        | (4,611,552)         |
| Purchase of intangible assets                               | <b>4</b>  | (10,900)            | -                   |
| Decrease/(increase) in financial assets - investments       |           | 6,321,600           | (678,560)           |
| Increase in loans and receivables                           |           | (86,925)            | -                   |
| <b>Net cash flows from investing activities</b>             |           | <b>(5,859,407)</b>  | <b>(5,290,212)</b>  |
| <b>Cash flows from financing activities</b>                 |           |                     |                     |
| Repayment of annuity loan                                   |           | (119,589)           | (69,251)            |
| Increase in consumer deposits                               |           | 2,361               | 38,973              |
| Decrease in finance lease obligation                        |           | (322,795)           | (1,087,903)         |
| <b>Net cash flows from financing activities</b>             |           | <b>(440,123)</b>    | <b>(1,118,181)</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |           | <b>(8,429,392)</b>  | <b>5,230,391</b>    |
| Cash and cash equivalents at the beginning of the year      |           | 3,960,120           | (1,280,271)         |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>12</b> | <b>(4,479,272)</b>  | <b>3,960,120</b>    |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Comparison of Budget and Actual Amounts

| Budget on Accrual Basis  | Approved budget     | Adjustments         | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference Appendix A |
|--|---------------------|---------------------|----------------------|------------------------------------|--|----------------------|
| Figures in Rand  |                     |                     |                      |                                    |  |                      |
| <b>Statement of Financial Performance</b>  |                     |                     |                      |                                    |  |                      |
| <b>Revenue</b>   |                     |                     |                      |                                    |  |                      |
| <b>Revenue from exchange transactions</b>  |                     |                     |                      |                                    |  |                      |
| Service charges  | 48,178,000          | (1,056,000)         | 47,122,000           | 35,877,821                         | (11,244,379)                               |                      |
| Rental of facilities and equipment   | 2,490,000           | -                   | 2,490,000            | 4,586,229                          | 2,096,229                                  |                      |
| Licences and permits   | 3,065,000           | -                   | 3,665,000            | 2,701,770                          | (963,230)                                  |                      |
| Other income   | 163,000             | -                   | 163,000              | 449,362                            | 286,362                                    |                      |
| Interest revenue   | 5,689,000           | -                   | 5,689,000            | 7,160,600                          | 1,471,600                                  |                      |
| Gains on disposal of assets  | 100,000             | -                   | 100,000              | -                                  | (100,000)                                  |                      |
| <b>Total revenue from exchange transactions</b>  | <b>60,285,000</b>   | <b>(1,056,000)</b>  | <b>59,229,000</b>    | <b>50,776,582</b>                  | <b>(8,453,418)</b>                         |                      |
| <b>Revenue from non-exchange transactions</b>  |                     |                     |                      |                                    |  |                      |
| Property rates   | 10,771,000          | (1,787,000)         | 8,984,000            | 8,018,606                          | (965,394)                                  |                      |
| Property rates - penalties imposed   | 1,619,000           | 403,000             | 2,022,000            | 2,223,352                          | 201,352                                    |                      |
| Donations income   | -                   | -                   | -                    | 18,000                             | 18,000                                     |                      |
| Government grants and subsidies  | 37,680,000          | 1,077,000           | 38,757,000           | 39,063,041                         | 296,041                                    |                      |
| Fines  | 310,000             | -                   | 310,000              | 364,067                            | 54,967                                     |                      |
| <b>Total revenue from non-exchange transactions</b>  | <b>50,380,000</b>   | <b>(307,000)</b>    | <b>50,073,000</b>    | <b>49,677,966</b>                  | <b>(396,034)</b>                           |                      |
| <b>Total revenue</b>   | <b>110,665,000</b>  | <b>(1,363,000)</b>  | <b>109,302,000</b>   | <b>100,453,548</b>                 | <b>(8,848,452)</b>                         |                      |
| <b>Expenditure</b>   |                     |                     |                      |                                    |  |                      |
| Personnel  | (31,641,000)        | 1,471,000           | (30,170,000)         | (25,143,558)                       | 5,026,442                                  |                      |
| Depreciation and amortisation  | (6,045,000)         | (50,000,000)        | (56,045,000)         | (5,700,595)                        | 80,284,404                                 |                      |
| Impairment loss/ Reversal of impairments   | -                   | -                   | -                    | (421,118)                          | (421,118)                                  |                      |
| Finance costs  | (1,214,000)         | -                   | (1,214,000)          | (1,671,180)                        | (457,180)                                  |                      |
| Debt impairment  | (9,824,000)         | -                   | (9,824,000)          | (6,870,955)                        | 2,953,045                                  |                      |
| Repairs and maintenance  | (2,341,000)         | -                   | (2,341,000)          | (1,093,828)                        | 1,247,172                                  |                      |
| Bulk purchases   | (34,501,000)        | -                   | (34,501,000)         | (37,961,514)                       | (3,460,514)                                |                      |
| Contracted services  | (3,792,000)         | (1,311,000)         | (5,103,000)          | (5,128,031)                        | (25,031)                                   |                      |
| General expenses   | (7,227,000)         | (3,722,000)         | (10,949,000)         | (9,204,331)                        | 1,744,669                                  |                      |
| Bank charges   | -                   | -                   | -                    | (115,940)                          | (115,940)                                  |                      |
| <b>Total expenditure</b>   | <b>(96,595,000)</b> | <b>(53,562,000)</b> | <b>(150,157,000)</b> | <b>(93,371,051)</b>                | <b>56,775,949</b>                          |                      |
| <b>Operating surplus</b>   | <b>(96,595,000)</b> | <b>(53,562,000)</b> | <b>(150,157,000)</b> | <b>7,082,497</b>                   | <b>167,225,497</b>                         |                      |
| Loss on disposal of assets   | (111,000)           | -                   | (111,000)            | -                                  | 111,000                                    |                      |
| <b>Total expenditure</b>   | <b>(96,696,000)</b> | <b>(53,562,000)</b> | <b>(150,268,000)</b> | <b>7,082,497</b>                   | <b>167,340,497</b>                         |                      |
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>(96,696,000)</b> | <b>(53,562,000)</b> | <b>(150,268,000)</b> | <b>7,082,497</b>                   | <b>167,340,497</b>                         |                      |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|   | Approved budget | Adjustments  | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference Appendix A |
|---|-----------------|--------------|--------------|------------------------------------|--|----------------------|
| Figures in Rand                             |                 |              |              |                                    |  |                      |
| <b>Statement of Financial Position</b>      |                 |              |              |                                    |  |                      |
| <b>Assets</b>                               |                 |              |              |                                    |  |                      |
| <b>Current Assets</b>                       |                 |              |              |                                    |  |                      |
| Inventories                                 | -               | -            | -            | 253,154                            | 253,154                                    |                      |
| VAT receivable                              | -               | -            | -            | 4,586,150                          | 4,586,150                                  |                      |
| Other receivables                           | 2,190,000       | -            | 2,190,000    | 830,059                            | (1,359,941)                                |                      |
| Consumer debtors                            | (25,801,000)    | -            | (25,801,000) | 21,879,881                         | 47,679,881                                 |                      |
| Financial assets - investments              | 15,120,000      | -            | 15,120,000   | 11,952,270                         | (3,167,730)                                |                      |
| Loans and receivables                       | -               | -            | -            | 417,343                            | 417,343                                    |                      |
| Cash and cash equivalents                   | -               | -            | -            | 56,709                             | 56,709                                     |                      |
|   | (8,491,000)     | -            | (8,491,000)  | 39,974,626                         | 48,465,626                                 |                      |
| <b>Non-Current Assets</b>                   |                 |              |              |                                    |  |                      |
| Investment property                         | 5,335,000       | -            | 5,335,000    | 5,335,395                          | 395  |                      |
| Property, plant and equipment               | 41,900,000      | -            | 41,900,000   | 48,026,852                         | 6,126,852                                  |                      |
| Intangible assets                           | -               | -            | -            | 55,908                             | 55,908                                     |                      |
|   | 47,235,000      | -            | 47,235,000   | 53,418,155                         | 6,183,155                                  |                      |
| <b>Total Assets</b>                         | 38,744,000      | -            | 38,744,000   | 93,392,781                         | 54,648,781                                 |                      |
| <b>Liabilities</b>                          |                 |              |              |                                    |  |                      |
| <b>Current Liabilities</b>                  |                 |              |              |                                    |  |                      |
| Finance lease obligation                    | -               | -            | -            | 1,533,340                          | 1,533,340                                  |                      |
| Payables from exchange transactions         | 4,126,000       | -            | 4,126,000    | 16,075,589                         | 11,949,589                                 |                      |
| Consumer deposits                           | 358,000         | -            | 358,000      | 398,862                            | 40,862                                     |                      |
| Employee benefit obligation                 | -               | -            | -            | 358,000                            | 358,000                                    |                      |
| Unspent conditional grants and receipts     | 8,220,000       | -            | 8,220,000    | 15,789,173                         | 7,569,173                                  |                      |
| Provisions                                  | 9,010,000       | -            | 9,010,000    | 10,928,631                         | 1,918,631                                  |                      |
| Short term portion of long term liabilities | 147,000         | -            | 147,000      | 140,404                            | (6,596)                                    |                      |
| Bank overdraft                              | 2,811,000       | -            | 2,811,000    | 4,536,041                          | 1,725,041                                  |                      |
|   | 24,672,000      | -            | 24,672,000   | 49,766,040                         | 25,094,040                                 |                      |
| <b>Non-Current Liabilities</b>              |                 |              |              |                                    |  |                      |
| Finance lease obligation                    | 4,596,000       | -            | 4,596,000    | 2,265,841                          | (2,330,159)                                |                      |
| Employee benefit obligation                 | -               | -            | -            | 8,940,000                          | 8,940,000                                  |                      |
| Annuity loan                                | -               | -            | -            | 1,819                              | 1,819                                      |                      |
|   | 4,596,000       | -            | 4,596,000    | 11,207,660                         | 6,611,660                                  |                      |
| <b>Total Liabilities</b>                    | 29,268,000      | -            | 29,268,000   | 60,973,700                         | 31,685,700                                 |                      |
| <b>Net Assets</b>                           | 9,476,000       | -            | 9,476,000    | 32,429,081                         | 22,963,081                                 |                      |
| <b>Reserves</b>                             |                 |              |              |                                    |  |                      |
| Accumulated surplus                         | 60,176,000      | (58,650,000) | 1,626,000    | 45,210,642                         | 43,584,642                                 |                      |
| <b>Total Net Assets</b>                     | 60,176,000      | (58,650,000) | 1,626,000    | 45,210,642                         | 43,584,642                                 |                      |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|   | Approved budget      | Adjustments | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference Appendix A |
|---|----------------------|-------------|----------------------|------------------------------------|--|----------------------|
| Figures in Rand   |                      |             |                      |                                    |  |                      |
| <b>Cash Flow Statement</b>                                  |                      |             |                      |                                    |  |                      |
| <b>Cash flows from operating activities</b>                 |                      |             |                      |                                    |  |                      |
| <b>Receipts</b>   |                      |             |                      |                                    |  |                      |
| Sale of goods, services and other receipts                  | 74,172,000           | -           | 74,172,000           | 43,466,986                         | (30,705,014)                               |                      |
| Grants  | 37,650,000           | -           | 37,650,000           | 39,669,764                         | 2,009,764                                  |                      |
| Interest revenue  | 810,000              | -           | 810,000              | 692,101                            | (117,899)                                  |                      |
|   | <b>112,662,000</b>   | <b>-</b>    | <b>112,662,000</b>   | <b>83,848,851</b>                  | <b>(28,813,149)</b>                        |                      |
| <b>Payments</b>   |                      |             |                      |                                    |  |                      |
| Suppliers, employee costs and other payments                | (102,671,000)        | -           | (102,671,000)        | (84,307,931)                       | 18,363,069                                 |                      |
| Finance costs   | (413,000)            | -           | (413,000)            | (1,671,160)                        | (1,258,160)                                |                      |
|   | <b>(103,084,000)</b> | <b>-</b>    | <b>(103,084,000)</b> | <b>(86,979,111)</b>                | <b>17,104,889</b>                          |                      |
| <b>Net cash flows from operating activities</b>             | <b>9,578,000</b>     | <b>-</b>    | <b>9,578,000</b>     | <b>(2,130,260)</b>                 | <b>(11,708,260)</b>                        |                      |
| <b>Cash flows from investing activities</b>                 |                      |             |                      |                                    |  |                      |
| Purchase of property, plant and equipment                   | (13,432,000)         | -           | (13,432,000)         | (12,083,382)                       | 1,348,618                                  |                      |
| Purchase of intangible assets                               | -                    | -           | -                    | (10,900)                           | (10,900)                                   |                      |
| Decrease in financial assets - investments                  | 2,476,000            | -           | 2,476,000            | 6,321,800                          | 3,845,800                                  |                      |
| Increase in loans and receivables                           | -                    | -           | -                    | (88,925)                           | (88,925)                                   |                      |
| <b>Net cash flows from investing activities</b>             | <b>(10,956,000)</b>  | <b>-</b>    | <b>(10,956,000)</b>  | <b>(5,859,407)</b>                 | <b>5,096,593</b>                           |                      |
| <b>Cash flows from financing activities</b>                 |                      |             |                      |                                    |  |                      |
| Decrease in finance lease obligation                        | (147,000)            | -           | (147,000)            | (322,795)                          | (175,795)                                  |                      |
| Increase in consumer deposits                               | -                    | -           | -                    | 2,361                              | 2,361                                      |                      |
| Repayment of security loan                                  | -                    | -           | -                    | (119,089)                          | (119,689)                                  |                      |
| <b>Net cash flows from financing activities</b>             | <b>(147,000)</b>     | <b>-</b>    | <b>(147,000)</b>     | <b>(440,123)</b>                   | <b>(175,795)</b>                           |                      |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(1,525,000)</b>   | <b>-</b>    | <b>(1,525,000)</b>   | <b>(8,429,790)</b>                 | <b>(6,787,462)</b>                         |                      |
| Cash and cash equivalents at the beginning of the year      | (265,000)            | -           | (265,000)            | 3,950,119                          | 4,215,119                                  |                      |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>(1,790,000)</b>   | <b>-</b>    | <b>(1,790,000)</b>   | <b>(4,479,671)</b>                 | <b>(2,672,343)</b>                         |                      |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the of the municipality and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

In the absence of an issued and effective standard of GRAP accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10, and 11 of GRAP 3 as read with Directive 5.

These accounting policies are consistent with the previous period, unless specified otherwise.

#### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Consumer debtors are expected to be realised within 12 months after the reporting date.

##### Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### 1.2 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard | Interpretation  | Effective date |
|----------|---|----------------|
| GRAP 21  | Impairment of non-cash-generating assets                      | 01 April 2012  |
| GRAP 23  | Revenue from non-exchange transactions                        | 01 April 2012  |
| GRAP 24  | Presentation of budget information in the financial statement | 01 April 2012  |
| GRAP 25  | Impairment of cash-generating assets                          | 01 April 2012  |
| GRAP 103 | Heritage assets   | 01 April 2012  |
| GRAP 104 | Financial instruments   | 01 April 2012  |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.2 Standards and interpretations effective and adopted in the current year (continued)

The adoption of the above standards of GRAP did not have a significant impact in the operations of the municipality.

#### 1.3 Standards, amendments to standards and interpretations issued but not yet effective

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality was still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality.

GRAP 18 Segment reporting  
GRAP 20 Related Party disclosures  
GRAP 25 Employee benefits  
GRAP 105 Transfer of functions between entities under common control  
GRAP 106 Transfer of functions between entities not under common control  
GRAP 107 Mergers

The municipality has not applied the above accounting standards and interpretations that have been issued but are not yet effective for the current financial year but have applied their principles in forming the related accounting policies.

#### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

| Item            | Useful life |
|-----------------|-------------|
| Property - land | Indefinite  |

#### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

The cost of items of property, plant and equipment under construction as of the reporting date is recognised as an asset if:

- (a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality; and
- (b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

| Item                                | Average useful life |
|-------------------------------------|---------------------|
| Buildings                           | 5 - 25 years        |
| Infrastructure                      |                     |
| • Electricity                       | 3 - 30 years        |
| • Roads                             | 3 - 40 years        |
| • Solid Waste disposal              | 10 years            |
| • Cemeteries                        | 10 - 25 years       |
| Other property, plant and equipment |                     |
| • Machinery and equipment           | 3 - 10 years        |
| • Furniture and equipment           | 3 - 5 years         |
| • Computer equipment                | 3 - 5 years         |
| • Transport                         | 4 - 5 years         |
| Finance lease assets                |                     |
| • Office equipment                  | 6 years             |
| • Transport                         | 3 - 5 years         |
| Landfill site                       | 5 years             |



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality** Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

#### **1.5 Property, plant and equipment (continued)**

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### **1.6 Site restoration and dismantling cost**

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as decommissioning, restoration and similar liabilities. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

The municipality has a landfill site which it is obligated to rehabilitate at the end of its useful life.

#### **1.7 Intangible assets**

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item              | Useful life |
|-------------------|-------------|
| Computer software | 2 years     |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

#### 1.8 Financial instruments

##### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

##### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments. Financial instruments are initially recognised at fair value.

Transaction costs are included in the initial measurement of the instrument.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.5 Financial Instruments (continued)

##### Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

##### Loans to employees

These financial assets are classified as loans and receivables.

##### Receivables from exchange transactions

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. An estimate is made for doubtful receivables based on a review of all outstanding amounts at reporting date. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to surplus or deficit.

##### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### Cash and cash equivalents

The municipality classifies cash and cash equivalents as loans and receivables. Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

##### Investments

The municipality has investments that comprise of call accounts and money market investment accounts. These are treated as loans and receivables and are initially recorded at fair value and subsequently recorded at amortised cost.

##### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:  
• For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.8 Financial Instruments (continued)

##### Derecognition

###### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

###### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

###### Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

#### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

##### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality** Annual Financial Statements for the year ended 30 June 2013 **Accounting Policies**

### **1.9 Leases (continued)**

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period in which they are incurred.

### **1.10 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality** Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.11 Impairment of cash-generating assets and non-cash generating assets**

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash-generating assets or non-cash-generating assets.

For cash-generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

- **Depreciated replacement cost approach** – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- **Restoration cost approach** – Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- **Service units approach** – the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

#### **1.12 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality** Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.13 Employee benefits**

##### **Short-term employee benefits**

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the statement of financial performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

##### **Medical aid benefit**

The employer portion of the medical aid contributions is recognised as an expense in the statement of financial performance as it falls due.

##### **Retirement benefits**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans, where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

##### **Defined benefit plans**

The municipality contributes to the Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the statement of financial performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

##### **Other post retirement obligations**

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

#### **1.14 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

**Mpofana Municipality**  
Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.15 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

#### Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

#### 1.16 Revenue from non-exchange transactions (continued)

##### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

##### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

##### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remits grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

##### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### 1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

#### 1.18 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

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#### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1996) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.22 Presentation currency

These annual financial statements are presented in South African Rand.

#### 1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

#### 1.24 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

#### 1.25 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

#### 1.26 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the municipality's legal mandate; further details about those transactions are disclosed in the notes to the financial statements.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## **Mpofana Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.27 Going concern assumption**

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.28 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

#### **1.29 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

Figures in Rand

|  | 2013                |   |                   | 2012                            |   |                   |
|--|---------------------|---|-------------------|---------------------------------|---|-------------------|
|  | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying<br>value | Cost /<br>Valuation             | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying<br>value |
| Investment property - land   | 6,336,396           | -   | 6,336,396         | 6,336,396                       | -   | 6,336,396         |
| <b>Reconciliation of investment property - 2013</b>  |                     |   |                   |                                 |   |                   |
| Investment property - land   |                     |   |                   | Opening<br>balance<br>6,336,396 | Closing<br>balance<br>6,336,396                                 |                   |
| <b>Reconciliation of investment property - 2012</b>  |                     |   |                   |                                 |   |                   |
| Investment property - land   |                     |   |                   | Opening<br>balance<br>6,336,396 | Closing<br>balance<br>6,336,396                                 |                   |
| Fair value of investment property  |                     |   |                   | 17,286,400                      | 17,286,400  |                   |
| A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.                                       |                     |   |                   |                                 |   |                   |
| Details of valuation   |                     |   |                   |                                 |   |                   |
| The effective date of the revaluations was 01 January 2012. Valuations were performed by an municipal valuer, Mr Alan Robert Stephenson (South African Council for the Property Valuers Profession), of M&S Fitchet. |                     |   |                   |                                 |   |                   |
| The municipality performs valuation of investment property on a four year cycle basis. No valuation was therefore performed for the 2012/13 financial period.  |                     |   |                   |                                 |   |                   |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

Figures in Rand

|  | 2013             |   |                | 2012                         |   |                              |
|--|------------------|---|----------------|------------------------------|---|------------------------------|
|  | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation             | Accumulated depreciation and accumulated impairment | Carrying value               |
| Investment property - land   | 6,336,395        | -   | 6,336,395      | 6,336,395                    | -   | 6,336,395                    |
| <b>Reconciliation of investment property - 2013</b>  |                  |   |                |                              |   |                              |
| Investment property - land   |                  |   |                | Opening balance<br>6,336,395 |   | Closing balance<br>6,336,395 |
| <b>Reconciliation of investment property - 2012</b>  |                  |   |                |                              |   |                              |
| Investment property - land   |                  |   |                | Opening balance<br>6,336,395 |   | Closing balance<br>6,336,395 |
| Fair value of investment property  |                  |   |                | 17,286,400                   |   | 17,286,400                   |
| A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.                                       |                  |   |                |                              |   |                              |
| Details of valuation   |                  |   |                |                              |   |                              |
| The effective date of the revaluations was 01 January 2012. Valuations were performed by an municipal valuer, Mr Alan Robert Stephenson (South African Council for the Property Valuers Profession), of M&S Fitchet. |                  |   |                |                              |   |                              |
| The municipality performs valuation of investment property on a four year cycle basis. No valuation was therefore performed for the 2012/13 financial period.  |                  |   |                |                              |   |                              |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpošana Municipality Annual Financial Statements for the year ended 30 June 2013

### 1. Property, plant and equipment

|                                     | 2013                |  |                    | 2012                |  |                    |
|-------------------------------------|---------------------|--|--------------------|---------------------|--|--------------------|
|                                     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>impairment | Carrying<br>value  | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>impairment | Carrying<br>value  |
| Land                                | 3,322,286           | -  | 3,322,286          | 3,322,286           | -  | 3,322,286          |
| Buildings                           | 8,428,377           | (4,378,785)                                      | 4,049,592          | 8,428,377           | (4,387,571)                                      | 4,040,806          |
| Infrastructure                      | 66,879,324          | (44,861,981)                                     | 22,017,343         | 66,879,324          | (47,227,607)                                     | 19,651,717         |
| Other property, plant and equipment | 6,987,782           | (4,992,459)                                      | 1,995,323          | 6,253,540           | (4,250,405)                                      | 2,003,135          |
| Capital work in progress            | 12,665,593          | -  | 12,665,593         | 1,907,091           | -  | 1,907,091          |
| Finance lease assets                | 7,071,190           | (3,474,052)                                      | 3,597,138          | 5,861,744           | (2,337,353)                                      | 3,524,391          |
| Landfill site                       | 7,031,392           | (5,156,599)                                      | 1,874,793          | 7,891,992           | (4,221,536)                                      | 3,670,456          |
| <b>Total</b>                        | <b>168,962,624</b>  | <b>(62,366,425)</b>                              | <b>106,596,199</b> | <b>170,881,282</b>  | <b>(56,234,547)</b>                              | <b>114,646,735</b> |

### Reconciliation of property, plant and equipment - 2013

|                                     | Opening<br>balance | Additions         | Depreciation<br>impairment | Closing<br>balance |
|-------------------------------------|--------------------|-------------------|----------------------------|--------------------|
| Land                                | 3,322,286          | -                 | -                          | 3,322,286          |
| Buildings                           | 2,008,300          | -                 | (335,524)                  | 1,672,776          |
| Infrastructure                      | 26,751,417         | -                 | (2,592,844)                | 24,158,573         |
| Other property, plant and equipment | 2,002,949          | 324,444           | (692,524)                  | 1,634,869          |
| Capital work in progress            | 1,907,091          | 10,698,492        | -                          | 12,605,583         |
| Finance lease assets                | 3,854,219          | 1,079,449         | (1,336,577)                | 3,597,138          |
| Landfill site                       | 2,893,546          | -                 | (635,420)                  | 2,258,126          |
| <b>Total</b>                        | <b>41,839,208</b>  | <b>12,001,385</b> | <b>(5,724,369)</b>         | <b>48,116,224</b>  |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpoofana Municipality Annual Financial Statements for the year ended 30 June 2013

### 1. Property, plant and equipment (continued) Reconciliation of property, plant and equipment - 2013

|                                     | Opening<br>balance | Additions        | Transfers   | Other<br>changes,<br>movements | Depreciation<br>impairment<br>loss | Closing<br>balance |
|-------------------------------------|--------------------|------------------|-------------|--------------------------------|------------------------------------|--------------------|
| Land                                | 3,322,286          | -                | -           | -                              | -                                  | 3,322,286          |
| Buildings                           | 2,948,742          | 198,360          | 68,650      | 70,022                         | (255,520)                          | 40,638             |
| Infrastructure                      | 22,551,126         | -                | 4,682,383   | 465                            | (2,541,708)                        | 1,077,121          |
| Other property, plant and equipment | 3,363,865          | 339,876          | -           | -                              | (868,559)                          | 2,000,946          |
| Capital work in progress            | 2,514,377          | 4,123,847        | (4,735,833) | -                              | -                                  | 1,907,291          |
| Finance lease assets                | 4,897,467          | -                | -           | -                              | (1,113,298)                        | 3,654,219          |
| Leasehold site                      | 4,273,550          | -                | -           | -                              | (1,439,854)                        | 2,895,548          |
|                                     | <b>41,878,523</b>  | <b>4,672,003</b> | <b>-</b>    | <b>70,657</b>                  | <b>(5,074,941)</b>                 | <b>5,113,283</b>   |
|                                     |                    |                  |             |                                |                                    | <b>41,866,305</b>  |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

Figures in Rand

|  | 2013 | 2012 |
|--|------|------|
|--|------|------|

#### 4. Intangible assets

|                   | 2013             |   |                | 2012             |   |                |
|-------------------|------------------|---|----------------|------------------|---|----------------|
|                   | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 205,832          | (149,924)   | 55,908         | 194,952          | (122,695)   | 72,237         |

#### Reconciliation of intangible assets - 2013

|                   | Opening balance | Additions | Amortisation | Closing balance |
|-------------------|-----------------|-----------|--------------|-----------------|
| Computer software | 72,237          | 10,900    | (27,239)     | 55,908          |

#### Reconciliation of intangible assets - 2012

|                   | Opening balance | Amortisation | Closing balance |
|-------------------|-----------------|--------------|-----------------|
| Computer software | 106,466         | (36,229)     | 72,237          |

#### 5. Employee benefit obligations

##### Defined benefit plan

##### Post retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its qualifying employees.

Post-retirement medical aid benefits are offered to qualifying employees by subsidising a portion of the medical aid contribution after retirement.

The municipality is committed to pay subsidies broadly as follows:

- 60% to current employees
- 60%/100% to current continuation retirees
- Widower(s) and orphans of current employees are entitled to continue at 60% or 100%, the subsidy upon the death of the pensioner.

##### Long service bonus awards

The long service bonus awards consist of an obligation to pay out bonus in the year of the employee attaining the required service. This obligation represents a liability to the municipality and the value is represented by the present value of the total long service bonus awards expected to become payable under the municipality's current policy.

The municipality offers bonuses for every five years of completed service from ten years to forty five years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. It has been assumed that in all cases, employees choose to exercise the option to wholly convert their accumulated leave days bonus into cash.

The most recent actuarial valuation was performed for the above mentioned obligations on 30 June 2013 by One Fargsea Financial using Projected Unit Credit Method.

The full obligation has been recognised as at the date of the statement of financial position.



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

| Figures in Rand  | 2013               | 2012               |
|--|--------------------|--------------------|
| <b>5. Employee benefit obligations (continued)</b>   |                    |                    |
| <b>The aggregate amounts recognised in the statement of financial position are as follows:</b> |                    |                    |
| <b>Carrying value</b>  |                    |                    |
| Opening balance  | (6,784,000)        | -                  |
| Current service cost   | (431,000)          | -                  |
| Interest cost  | (547,000)          | -                  |
| Benefit payments   | 307,000            | -                  |
| Actuarial gains/(losses)   | (1,843,000)        | -                  |
|  | <b>(9,298,000)</b> | <b>(6,784,000)</b> |
| Non-current liabilities  | (8,940,000)        | (6,477,000)        |
| Current liabilities  | (358,000)          | (307,000)          |
|  | <b>(9,298,000)</b> | <b>(6,784,000)</b> |
| <b>Net expense recognised in the statement of financial performance</b>                        |                    |                    |
| Current service cost   | 431,000            | -                  |
| Interest cost  | 547,000            | -                  |
| Actuarial losses   | 1,843,000          | -                  |
| Curtailment or settlement  | (307,000)          | -                  |
|  | <b>2,514,000</b>   | <b>-</b>           |
| <b>5.1. Post retirement medical aid</b>  |                    |                    |
| Opening balance  | (5,981,000)        | -                  |
| Current service cost   | (314,000)          | -                  |
| Interest cost  | (482,000)          | -                  |
| Benefit payments   | 274,000            | -                  |
| Actuarial gains/(losses)   | (1,653,000)        | -                  |
|  | <b>(8,156,000)</b> | <b>(5,981,000)</b> |
| Non-current liabilities  | (7,882,000)        | (5,707,000)        |
| Current liabilities  | (274,000)          | (274,000)          |
|  | <b>(8,156,000)</b> | <b>(5,981,000)</b> |
| <b>Net expense recognised in the statement of financial performance</b>                        |                    |                    |
| Current service costs  | 314,000            | -                  |
| Interest cost  | 482,000            | -                  |
| Actuarial losses   | 1,653,000          | -                  |
| Curtailment or settlement  | (274,000)          | -                  |
|  | <b>2,175,000</b>   | <b>-</b>           |
| <b>5.2. Long service bonus awards</b>  |                    |                    |
| Opening balance  | (803,000)          | -                  |
| Current service cost   | (117,000)          | -                  |
| Interest cost  | (65,000)           | -                  |
| Benefit payments   | 33,000             | -                  |
| Actuarial gains/(losses)   | (190,000)          | -                  |
|  | <b>(1,142,000)</b> | <b>(803,000)</b>   |
| Non-current liabilities  | (1,068,000)        | (770,000)          |
| Current liabilities  | (84,000)           | (33,000)           |
|  | <b>(1,142,000)</b> | <b>(803,000)</b>   |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

Figures in Rand

|   | 2013           | 2012 |
|---|----------------|------|
| <b>5. Employee benefit obligations (continued)</b>                      |                |      |
| <b>Net expense recognised in the statement of financial performance</b> |                |      |
| Current service costs   | 117,000        | -    |
| Interest cost   | 85,000         | -    |
| Actuarial losses  | 190,000        | -    |
| Curtailment or settlement   | (23,000)       | -    |
|   | <b>369,000</b> | -    |

The municipality became aware of the above obligations in the current year. They were previously not recognised. Refer note 42.

#### Key assumptions used

Assumptions used at the reporting date:

|                                 |       |       |
|---------------------------------|-------|-------|
| Discount rates used             | 7.25% | 8.26% |
| Health care cost inflation rate | 6.75% | 6.76% |
| Consumer price index            | 6.25% | 6.00% |
| Salary increase rate            | 7.15% | 6.90% |
| Net effective discount rate     | 0.47% | 1.41% |

#### Retirement age

|        |    |   |
|--------|----|---|
| Female | 63 | - |
| Male   | 63 | - |

|                            |    |   |
|----------------------------|----|---|
| Number of eligible members | 66 | - |
| Number of pensioners       | 9  | - |

#### Other assumptions - post retirement medical aid

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

|   | One percentage point increase | One percentage point decrease |
|---|-------------------------------|-------------------------------|
| Effect on the aggregate of the service cost and interest cost | 1,431,000                     | 872,000                       |
| Effect on defined benefit obligation                          | 9,857,000                     | 6,849,000                     |
|   | <b>11,288,000</b>             | <b>7,721,000</b>              |

#### Other assumptions - long service bonus awards

The valuation bases assumed that the salary inflation rate (which manifest its self as an annual increase in employees' salaries which determine the bonuses payable) will be 0.99% less than the corresponding discount rate, in the long term. The effect of 1% increase and decrease in the salary inflation rate is as follows:

|   | One percentage point increase | One percentage point decrease |
|---|-------------------------------|-------------------------------|
| Effect on the aggregate of the service cost and interest cost | 276,000                       | 216,000                       |
| Effect on the employee benefit obligation                     | 1,261,000                     | 1,040,000                     |
|   | <b>1,537,000</b>              | <b>1,256,000</b>              |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

| Figures in Rand  | 2013              | 2012              |
|--|-------------------|-------------------|
| <b>5. Employee benefit obligations (continued)</b>   |                   |                   |
| <b>Defined contribution plan</b>   |                   |                   |
| Certain municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.  |                   |                   |
| These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality. Information from the schemes as a whole is included below.  |                   |                   |
| Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALAA) Provident and Retirement Funds. All contributions have been included in the employee related cost note.  |                   |                   |
| <b>SUPERANNUATION FUND</b>   |                   |                   |
| As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 121,7 million more than the actuarial value of liabilities for service of members to that date and for pensioners, made up as follows:   |                   |                   |
| - Surplus of R 210 million in respect of pensioners (funding level 119,4%)   |                   |                   |
| - Deficit of R 88,3 million in respect of members ( funding level 95%)   |                   |                   |
| - The fund was thus 104% funded  |                   |                   |
| - The fund did not hold an investment reserve  |                   |                   |
| - The total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future service by 1,41 % of members pensionable emoluments  |                   |                   |
| - An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge will reduce to 4,5% with effect from 1 July 2007   |                   |                   |
| <b>RETIREMENT FUND</b>   |                   |                   |
| As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 140,6 million more than the actuarial value of liabilities for services of members to that date and for pensioners made up as follows:   |                   |                   |
| - Surplus of R 63,4 million in respect of pensioners ( funding level 116,2% )  |                   |                   |
| - Deficit of R204,3 million in respect of members ( funding level 73%)   |                   |                   |
| - The fund was thus 87,7% funded   |                   |                   |
| - The fund did not hold an investment reserve  |                   |                   |
| - The total contribution rate payable (including the surcharge of 14 % payable jointly by pre-1 July 2002 members and their employers on their behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient to eliminate the deficit by 2010, provided that salary increases do not exceed CPIX plus 0,6 %. |                   |                   |
| <b>6. Financial assets - Investments</b>   |                   |                   |
| <b>Call Investments</b>  |                   |                   |
| FNB investment call account - 62172496163  | 218,868           | 211,536           |
| ABSA and Transitional grant  | 2,166,674         | 1,578,184         |
| Housing project grant - 62187203957  | 7,091,105         | 6,851,862         |
| Housing project grant: Craigburg -62141712001  | 431,047           | 6,262,161         |
| Municipal housing account - 62237621760  | 2,024,182         | 3,206,668         |
| Midlands development agency  | 20,274            | 163,757           |
|  | <b>11,952,270</b> | <b>18,274,070</b> |
| <b>Midlands Development Agency</b>   |                   |                   |
| The municipality is part of the development agency established between uMngeni Municipality, Mpofana and uMtshezi Municipalities. The Agency is funded by the IDC and a bank account is held in the name of uMngeni Municipality, until the Board is appointed to take control of the affairs of the agency.   |                   |                   |
| The bank balance was R 60 823,06 as at 30 June 2013 (2012: R491 269,90) held at ABSA Bank LTD. The Municipality has recognised one third of the bank balance as an investment.   |                   |                   |

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

| Figures in Rand   | 2013              | 2012              |
|---|-------------------|-------------------|
| <b>7. Loans and receivables</b>   |                   |                   |
| <b>Current assets</b>   |                   |                   |
| Loans and receivables   | 417,343           | 330,418           |
| Loans and receivables relate to loan agreements which were entered into between the municipality and the Development Bank of Southern Africa (DBSA) for the water and sanitation scheme. This function was transferred to uMgungundlovu District Municipality but the DBSA loan agreements could not be ceded to uMgungundlovu District Municipality. The above receivable represents repayments previously made to DBSA, which are recoverable from uMgungundlovu District Municipality. |                   |                   |
| <b>8. Inventories</b>   |                   |                   |
| Consumable stores   | 253,154           | 44,362            |
| Inventory is stated at the lower of cost or current replacement value.  |                   |                   |
| <b>9. Other receivables</b>   |                   |                   |
| Sundry debtors  | 830,659           | 754,695           |
| Sundry debtors relate to the following:   |                   |                   |
| - Salary overpayment made to the former Deputy Mayor and the municipality is in the process of recovering this overpayment; and   |                   |                   |
| - Payment for Eskom pumps by the municipality on behalf of uMgungundlovu District Municipality.   |                   |                   |
| <b>10. VAT receivable</b>   |                   |                   |
| VAT refund receivable   | 4,586,150         | -                 |
| <b>11. Consumer debtors</b>   |                   |                   |
| <b>Gross balances</b>   |                   |                   |
| Rates   | 30,535,509        | 24,233,042        |
| Electricity   | 9,374,728         | 5,041,421         |
| Refuse  | 7,548,818         | 4,388,467         |
| Sundry debtors  | 7,931,468         | 5,681,344         |
|   | <b>55,390,523</b> | <b>39,344,274</b> |
| <b>Less: Provision for doubtful debts</b>   |                   |                   |
| Rates   | 22,903,233        | 16,812,242        |
| Electricity   | 5,236,529         | 3,497,606         |
| Refuse  | 6,027,225         | 3,044,602         |
| Sundry debtors  | -                 | 3,041,566         |
|   | <b>34,166,987</b> | <b>27,296,016</b> |
| <b>Net balance</b>  |                   |                   |
| Rates   | 7,632,276         | 7,420,799         |
| Electricity   | 4,138,199         | 1,543,815         |
| Refuse  | 1,521,593         | 1,343,863         |
| Sundry debtors  | 7,931,468         | 1,739,776         |
|   | <b>21,223,536</b> | <b>12,048,254</b> |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

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| Figures in Rand                                   | 2013              | 2012              |
|---|-------------------|-------------------|
| <b>11. Consumer debtors (continued)</b>           |                   |                   |
| <b>Rates</b>                                      |                   |                   |
| Current (0 -30 days)                              | 1,392,719         | 521,794           |
| 31 - 60 days                                      | 515,419           | 227,260           |
| 61 days and older                                 | 5,724,136         | 6,671,736         |
|   | <b>7,632,276</b>  | <b>7,420,790</b>  |
| <b>Electricity</b>                                |                   |                   |
| Current (0 -30 days)                              | 3,069,213         | 293,399           |
| 31 - 60 days                                      | 236,560           | 104,435           |
| 61 days and older                                 | 802,426           | 1,146,971         |
|   | <b>4,138,199</b>  | <b>1,543,815</b>  |
| <b>Refuse</b>                                     |                   |                   |
| Current (0 -30 days)                              | 402,007           | 199,322           |
| 31 - 60 days                                      | 182,969           | 83,272            |
| 61 days and older                                 | 636,617           | 1,061,266         |
|   | <b>1,621,593</b>  | <b>1,343,863</b>  |
| <b>Sundry debtors</b>                             |                   |                   |
| Current (0 -30 days)                              | 151,071           | 64,445            |
| 31 - 60 days                                      | 75,255            | 33,443            |
| 61 days and older                                 | 7,705,142         | 1,641,899         |
|   | <b>7,931,468</b>  | <b>1,739,777</b>  |
| <b>Reconciliation of allowance for impairment</b> |                   |                   |
| Balance at beginning of the year                  | 27,296,032        | 52,670,393        |
| Contributions to allowance                        | 34,166,987        | 64,554,681        |
| Reversal of allowance                             | (27,296,032)      | (52,670,393)      |
| Correction of error                               | -                 | (37,258,646)      |
|   | <b>34,166,987</b> | <b>27,296,032</b> |

The ageing of consumer debtors is presented on a net balance basis in the current year. In 2011/12 financial year, it was presented on a gross balance basis.

#### Indigent consumers

The municipality provided free basic refuse removal to its 782 (2012: 548) indigent customers which amounted to R5 885 662 (2012: R328 500) in cost.

#### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

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| <b>11. Consumer debtors (continued)</b>  |                    |                  |
| <b>Consumer debtors past due but not impaired</b>  |                    |                  |
| Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R 16,178,526 (2012: R 10,909,374) were past due but not impaired and are considered to fully recoverable.   |                    |                  |
| The ageing of amounts past due but not impaired is as follows:   |                    |                  |
| 1 month and over, past due   | 16,178,526         | 10,909,374       |
| <b>Consumer debtors impaired</b>   |                    |                  |
| As of 30 June 2013, consumer debtors of R 34,166,987 (2012: R 27,296,032) were impaired and provided for.  |                    |                  |
| The ageing of these debtors is as follows:   |                    |                  |
| 3 months and over  | 34,166,987         | 27,296,032       |
| <b>12. Cash and cash equivalents</b>   |                    |                  |
| Cash and cash equivalents consist of:  |                    |                  |
| Cash on hand   | 800                | 800              |
| Bank balances  | 55,909             | 3,949,320        |
| Bank overdraft   | (4,535,041)        | -                |
|  | <b>(4,479,232)</b> | <b>3,950,120</b> |
| Current assets   | 55,709             | 3,950,120        |
| Current liabilities  | (4,479,232)        | 3,950,120        |
| <b>13. Finance lease obligation</b>  |                    |                  |
| <b>Minimum lease payments due</b>  |                    |                  |
| - within one year  | 1,914,977          | 1,658,501        |
| - in second to fifth year inclusive  | 2,707,249          | 3,346,243        |
|  | 4,622,226          | 5,003,744        |
| less: future finance charges   | (823,046)          | (691,768)        |
| <b>Present value of minimum lease payments</b>   | <b>3,799,181</b>   | <b>4,311,976</b> |
| <b>Present value of minimum lease payments due</b>   |                    |                  |
| - within one year  | 1,635,340          | 1,227,222        |
| - in second to fifth year inclusive  | 2,263,841          | 2,894,754        |
|  | <b>3,799,181</b>   | <b>4,121,976</b> |
| The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date. Contingent rents have been recognised as an expense in the statement of financial performance. The leased assets are indicated in Note 3. |                    |                  |

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## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

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|  | 2013              | 2012              |
|--|-------------------|-------------------|
| <b>14. Unspent conditional grants and receipts</b>           |                   |                   |
| <b>Unspent conditional grants and receipts comprises of:</b> |                   |                   |
| Municipal assistance grant                                   | 565,266           | 966,738           |
| Townview housing project grant                               | 8,168,481         | 8,168,481         |
| Cragieburn housing project grant                             | 6,260,824         | 6,260,824         |
| Expanded Public Works Programme grant                        | 161,713           | -                 |
| Municipal infrastructure grant                               | -                 | 177,669           |
| Small town grant   | 297,321           | -                 |
| Sports and recreation grant                                  | 116,000           | -                 |
| Municipal systems improvement grant                          | 252,011           | -                 |
| Financial management grant                                   | 268,712           | -                 |
|  | <b>15,765,173</b> | <b>15,673,732</b> |
| <b>Municipal assistance grant</b>                            |                   |                   |
| Balance unspent at the beginning of the year                 | 966,738           | 836,791           |
| Current year receipts  | -                 | 1,025,000         |
| Conditions met - transferred to revenue                      | (401,482)         | (697,053)         |
|  | <b>565,266</b>    | <b>966,738</b>    |
| <b>Townview housing project grant</b>                        |                   |                   |
| Balance unspent at the beginning of the year                 | 8,168,481         | 8,168,481         |
| Current year receipts  | -                 | -                 |
| Conditions met - transferred to revenue                      | -                 | -                 |
|  | <b>8,168,481</b>  | <b>8,168,481</b>  |
| <b>Cragieburn housing project grant</b>                      |                   |                   |
| Balance unspent at the beginning of the year                 | 6,260,824         | 6,697,366         |
| Current year receipts  | 1,006,482         | -                 |
| Conditions met - transferred to revenue                      | (1,331,627)       | (336,532)         |
|  | <b>6,955,679</b>  | <b>6,260,824</b>  |
| <b>Finance management grant</b>                              |                   |                   |
| Balance unspent at the beginning of the year                 | -                 | -                 |
| Current year receipts  | 1,500,000         | 1,500,000         |
| Conditions met - transferred to revenue                      | (1,231,288)       | (1,500,000)       |
|  | <b>268,712</b>    | <b>-</b>          |
| <b>Electricity grant</b>                                     |                   |                   |
| Balance unspent at the beginning of the year                 | -                 | 2,057,836         |
| Current year receipts  | -                 | -                 |
| Conditions met - transferred to revenue                      | -                 | (2,057,836)       |
|  | <b>-</b>          | <b>-</b>          |
| <b>Municipal systems improvement grant</b>                   |                   |                   |
| Balance unspent at the beginning of the year                 | 800,000           | 790,000           |
| Current year receipts  | (547,989)         | (790,000)         |
| Conditions met - transferred to revenue                      | -                 | -                 |
|  | <b>252,011</b>    | <b>-</b>          |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

Annual Financial Statements for the year ended 30 June 2013

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|--|----------------|----------------|
| <b>14. Unspent conditional grants and receipts (continued)</b>   |                |                |
| <b>Municipal infrastructure grant</b>  |                |                |
| Balance unspent at the beginning of the year   | 177,666        | -              |
| Current year receipts  | 11,728,000     | 9,666,000      |
| Conditions met - transferred to revenue  | (11,905,666)   | (9,490,311)    |
|  | <b>-</b>       | <b>177,669</b> |
| <b>Expanded Public Works Programme grant</b>   |                |                |
| Balance unspent at the beginning of the year   | -              | -              |
| Current year receipts  | 1,000,000      | -              |
| Conditions met - transferred to revenue  | (627,237)      | -              |
| Reversal of prior period receivable  | (211,060)      | -              |
|  | <b>161,713</b> | <b>-</b>       |
| <b>Small town grant</b>  |                |                |
| Balance unspent at the beginning of the year   | -              | -              |
| Current year receipts  | 600,000        | -              |
| Conditions met - transferred to revenue  | (302,679)      | -              |
|  | <b>297,321</b> | <b>-</b>       |
| <b>Sports and recreation grant</b>   |                |                |
| Balance unspent at the beginning of the year   | -              | -              |
| Current year receipts  | 150,000        | -              |
| Conditions met - transferred to revenue  | (34,000)       | -              |
|  | <b>116,000</b> | <b>-</b>       |
| <b>Municipal assistance grant</b>  |                |                |
| This grant was provided to Mpofana municipality from Cooperative Governance and Traditional Affairs (CoGTA) to assist the municipality with governance issues.   |                |                |
| <b>Townview housing project grant</b>  |                |                |
| This was a tranche allocation by the Department of Human Settlement for the construction of low cost housing in the Townview area, in prior years. The project was abandoned due to the low standards as per the Department of Human Settlement. A rehabilitation project was embarked on by the Provincial Department, leaving the unspent portion with the municipality. The municipality has applied to use the funds for the construction of roads and the Phumlaas housing project. The municipality is awaiting the Department of Human Settlement's response regarding the application. |                |                |
| <b>Cragieburn housing project grant</b>  |                |                |
| This grant will be used for the construction of low cost housing in the Cragieburn area. It is currently in tranche 2 of approval.   |                |                |
| <b>Finance management grant (FMG)</b>  |                |                |
| The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills.   |                |                |
| <b>Electricity grant</b>   |                |                |
| This grant was used for the rehabilitation and the refurbishment of the electricity infrastructure to support sustained supply and to increase distribution capacity.  |                |                |
| <b>Municipal systems improvement grant (MSIG)</b>  |                |                |
| This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.  |                |                |
| <b>Municipal Infrastructure Grant (MIG)</b>  |                |                |
| This grant is used for capital infrastructure additions. The municipality has utilised the grant to build roads.   |                |                |



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

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#### 15. Provisions

##### Reconciliation of provisions - 2013

|                             | Opening<br>Balance | Additions        | Utilised<br>during the<br>year | Closing<br>balance |
|-----------------------------|--------------------|------------------|--------------------------------|--------------------|
| Provision for landfill site | 8,507,609          | 723,147          | -                              | 9,230,756          |
| Provision for leave pay     | 1,728,749          | 1,102,617        | (1,133,491)                    | 1,697,875          |
|                             | <b>10,236,358</b>  | <b>1,825,764</b> | <b>(1,133,491)</b>             | <b>10,928,631</b>  |

##### Reconciliation of provisions - 2012

|                                | Opening<br>Balance | Additions        | Utilised<br>during the<br>year | Closing<br>balance |
|--------------------------------|--------------------|------------------|--------------------------------|--------------------|
| Provision for landfill site    | 7,734,190          | 773,419          | -                              | 8,507,609          |
| Provision for leave pay        | 1,622,608          | 608,263          | (300,309)                      | 1,728,749          |
| Provision for damaged vehicles | 7,570              | -                | (7,570)                        | -                  |
|                                | <b>9,264,368</b>   | <b>1,279,672</b> | <b>(307,879)</b>               | <b>10,236,368</b>  |

#### Landfill site

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be paid by 30 June 2015.

A discounting factor based on prime interest and adjustment for municipal specific risk was applied.

#### Leave pay

The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

#### 16. Annuity loan

##### Annuity Loans

|  |              |                |
|--|--------------|----------------|
| DBSA Loans   | 142,223      | 261,912        |
| Less: Current portion transferred to current liabilities | (140,404)    | (110,216)      |
| <b>Long term portion</b>                                 | <b>1,819</b> | <b>151,697</b> |

The municipality received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure. The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14.50% to 16.32% per annum, payable every six months.

Three of the five loans received were recoverable from uMgungundlovu District Municipality as the water and sanitation function was ceded to the District Municipality. Refer to the loans and receivables note 7.

#### 17. Payables from exchange transactions

|  |                  |                  |
|--|------------------|------------------|
| Trade payables                                 | 127,567          | -                |
| Accruals - Eskom bulk purchases                | -                | 3,615,312        |
| Accruals - other                               | 421,226          | 1,426,760        |
| Debtor payments received in advance            | 4,136,548        | 1,405,498        |
| Accruals - uMgungundlovu District Municipality | 605,385          | 605,385          |
| Unallocated receipts                           | 27,726           | -                |
|  | <b>5,321,456</b> | <b>7,052,975</b> |

Trade payables are normally settled within 30 days.

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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

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|--|--------------------|-------------------|
| <b>18. VAT payable</b>   |                    |                   |
| VAT payable  | -                  | 687,234           |
| <b>19. Consumer deposits</b>   |                    |                   |
| Electricity  | 221,574            | 219,469           |
| Water  | 145,737            | 145,987           |
| Other  | 31,551             | 31,045            |
|  | <b>398,862</b>     | <b>396,501</b>    |
| Interest is not paid to consumers when deposits are refunded and hence it is not accrued on consumer deposits value. |                    |                   |
| <b>20. Revenue</b>   |                    |                   |
| Service charges (refer note 22)  | 35,877,621         | 46,270,031        |
| Government grants and subsidies  | 39,053,041         | 31,559,736        |
| Property rates   | 8,018,606          | 7,050,453         |
| Property rates - penalties imposed   | 2,223,352          | 2,635,457         |
| Interest revenue   | 7,160,600          | 2,024,612         |
| Rental of facilities and equipment   | 4,585,239          | 2,484,133         |
| Licences and permits   | 2,701,770          | 3,872,209         |
| Other income   | 449,303            | 444,395           |
| Fines  | 364,967            | 364,225           |
| Donations income   | 18,000             | 434,296           |
|  | <b>100,453,548</b> | <b>97,149,637</b> |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>                    |                    |                   |
| Service charges  | 35,877,621         | 46,270,031        |
| Interest revenue   | 7,160,600          | 2,024,612         |
| Rental of facilities and equipment   | 4,585,239          | 2,484,133         |
| Licences and permits   | 2,701,770          | 3,872,209         |
| Other income   | 449,303            | 444,395           |
|  | <b>50,776,562</b>  | <b>55,095,370</b> |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>                          |                    |                   |
| Government grants and subsidies  | 39,053,041         | 31,559,736        |
| Property rates   | 8,018,606          | 7,050,453         |
| Property rates - penalties imposed   | 2,223,352          | 2,635,457         |
| Donations income   | 364,967            | 364,225           |
| Royalties received   | 18,000             | 434,296           |
|  | <b>49,677,966</b>  | <b>42,054,167</b> |

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|---|--------------------------|--------------------------|
| <b>21. Government grants and subsidies included in revenue</b>  |                          |                          |
| <b>Operating grants</b>   |                          |                          |
| Equitable share   | 21,925,000               | 17,761,636               |
| Public health subsidy   | -                        | 489,000                  |
| Museum grant  | 134,000                  | 194,299                  |
| Small town grant  | 302,679                  | -                        |
| Municipal assistance grant  | 401,482                  | 697,053                  |
| Municipal system improvement grant (MSIG)   | 547,989                  | 790,000                  |
| Finance management grant (FMG)  | 1,231,288                | 1,500,000                |
| Government grant (operating) 15   | -                        | 211,050                  |
| Department of trade and industry (DTI) subsidy  | -                        | 69,654                   |
| Expanded public works programme grant   | 838,287                  | -                        |
| Sports and recreation subsidy   | 34,000                   | -                        |
| Library subsidy   | 336,000                  | -                        |
| Provincial library subsidy  | 65,000                   | -                        |
|   | <u>25,635,725</u>        | <u>21,732,592</u>        |
| <b>Capital grants</b>   |                          |                          |
| Municipal infrastructure grant (MIG)  | 11,605,689               | 9,490,311                |
| Cragieburn housing project grant  | 1,311,627                | 330,633                  |
|   | <u>13,217,316</u>        | <u>9,820,944</u>         |
|   | <u><b>39,053,041</b></u> | <u><b>31,559,736</b></u> |
| <b>Equitable share</b>  |                          |                          |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.  |                          |                          |
| <b>Museum subsidy</b>   |                          |                          |
| This subsidy has been granted to the municipality for operational upkeep of the museum in the area.   |                          |                          |
| <b>Public health subsidy</b>  |                          |                          |
| This subsidy was granted to the municipality by the Department of Public health for the operational costs of running the clinic.  |                          |                          |
| <b>Municipal infrastructure grant (MIG)</b>   |                          |                          |
| This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.  |                          |                          |
| <b>Expanded public works programme (EPWP)</b>   |                          |                          |
| This subsidy is provided by the Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.  |                          |                          |
| <b>Small town grant</b>   |                          |                          |
| This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view of developing the town by improving its economic state and attracting investment. |                          |                          |
| <b>22. Service charges</b>  |                          |                          |
| Sale of electricity   | 33,381,440               | 43,672,199               |
| Refuse removal  | 2,496,161                | 2,397,672                |
|   | <u><b>35,877,621</b></u> | <u><b>46,270,031</b></u> |

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

## Mpofana Municipality

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### Notes to the Annual Financial Statements

| Figures in Rand           | 2013             | 2012             |
|---------------------------|------------------|------------------|
| <b>23. Property rates</b> |                  |                  |
| Residential               | 4,575,194        | 1,954,844        |
| Agriculture               | 2,173,635        | 2,855,590        |
| State                     | 1,216,172        | 22,485           |
| Municipal                 | 53,404           | 1,092,505        |
|                           | <b>8,018,406</b> | <b>5,964,924</b> |

Valuations on land and buildings are performed every four years. The last valuation was performed on July 01, 2012.

The following general rates are applied:

|                                 |         |         |
|---------------------------------|---------|---------|
| - Residential                   | R2.5700 | R1.2826 |
| - Agricultural                  | R0.2700 | R0.3000 |
| - Commercial                    | R1.2800 | R1.5900 |
| - Public Service Infrastructure | R0.3167 | R0.3000 |
| - Public Benefit Organisation   | R0.6121 | RNil    |

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties, 30% on public service infrastructure and 20% on public benefit organisation. In the 2011/2012 year rebates of 30% were granted to rates on residential, 55% agricultural properties.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Property valuations</b>              |                      |                      |
| Agricultural                            | 1,622,916,000        | 1,167,766,000        |
| Agricultural smallholding               | 103,560,000          | 336,268,000          |
| State                                   | 90,780,000           | 257,191,100          |
| Industrial                              | 2,100,000            | 1,525,000            |
| Communal property and land reform       | 70,620,000           | -                    |
| Municipal                               | 9,284,000            | 6,771,000            |
| Public service infrastructure           | 27,025,200           | 6,424,530            |
| Residential and Residential hospitality | 755,903,900          | 400,105,700          |
| Sectional title - Commercial            | 2,200,000            | 1,300,000            |
| Sectional title - Residential           | 6,580,000            | 6,250,000            |
| State owned                             | 28,855,000           | 511,000              |
| Place of worship                        | 23,550,000           | 7,000,000            |
| Public benefit organisation             | 149,460,000          | -                    |
| Business and commercial                 | 194,049,000          | -                    |
| Tourism and hospitality                 | 154,335,000          | -                    |
|   | <b>3,440,807,100</b> | <b>2,210,112,330</b> |

### 24. Interest revenue

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| <b>Interest revenue</b>              |                  |                  |
| Interest on investments              | 615,333          | 730,946          |
| Interest charged on consumer debtors | 6,499,499        | 1,275,119        |
| Interest received - other            | 75,768           | 15,548           |
|                                      | <b>7,160,600</b> | <b>2,024,612</b> |

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|---|-------------------|-------------------|
| <b>25. Rental income</b>  |                   |                   |
| Premises  | 239,357           | 324,344           |
| Premises  | 38,084            | 25,200            |
| Venue hire  | <b>277,441</b>    | <b>349,544</b>    |
| <b>Facilities and equipment</b>   |                   |                   |
| Rental of equipment   | 4,308,755         | 2,134,555         |
|   | <b>4,686,229</b>  | <b>2,484,133</b>  |
| <b>26. Donations income</b>   |                   |                   |
| Donations income  | 18,000            | 434,295           |
| 300 black chairs to the value of R18 000 were donated by SASSA Regional office to the municipality during the current financial year. |                   |                   |
| <b>27. Other income</b>   |                   |                   |
| Other income  | 402,311           | 421,385           |
| Cemetery fee income   | 47,051            | 23,000            |
|   | <b>449,362</b>    | <b>444,385</b>    |
| <b>28. Bulk purchases</b>   |                   |                   |
| Electricity   | 37,961,514        | 31,380,265        |
| <b>29. Debt impairment</b>  |                   |                   |
| Adjustments to bad-debt provision   | 6,870,955         | 1,073,138         |
| Bad debts written off   | -                 | 15,278,960        |
|   | <b>6,870,955</b>  | <b>16,352,018</b> |
| <b>30. Employee related costs</b>   |                   |                   |
| Basic   | 12,344,573        | 10,963,195        |
| Bonus   | 887,765           | 735,343           |
| Casual salaries   | 609,452           | -                 |
| Housing benefits and allowances   | 213,681           | 51,377            |
| Leave pay provision charge  | (30,874)          | -                 |
| Long service awards   | 339,000           | -                 |
| Medical aid - company contributions   | 1,076,955         | 1,010,430         |
| Other allowances  | 23,266            | 1,315,291         |
| Other payroll levies  | 5,016             | 3,175             |
| Overtime payments   | 1,112,352         | 1,149,665         |
| Post-employment medical aid   | 2,175,000         | -                 |
| Post-employment benefits  | 2,793,487         | 2,574,339         |
| Redemption leave  | 319,840           | -                 |
| Skills development levy   | 175,044           | 74,574            |
| Transport allowance   | 1,145,945         | 1,260,909         |
| Unemployment insurance fund   | 131,613           | 190,073           |
|   | <b>23,328,187</b> | <b>19,351,375</b> |

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### Notes to the Annual Financial Statements

| Figures in Rand                                    | 2013             | 2012             |
|--|------------------|------------------|
| <b>30. Employee related costs (continued)</b>      |                  |                  |
| <b>Remuneration of municipal manager</b>           |                  |                  |
| Annual Remuneration                                | 335,265          | 409,636          |
| Car, travel, accommodation allowance and other     | 167,342          | 329,224          |
|  | <b>502,607</b>   | <b>738,860</b>   |
| <b>Remuneration of chief finance officer</b>       |                  |                  |
| Annual Remuneration                                | 291,154          | 355,444          |
| Car, travel, accommodation allowance and other     | 110,102          | 294,186          |
|  | <b>401,256</b>   | <b>652,630</b>   |
| <b>Remuneration of Director Corporate Services</b> |                  |                  |
| Annual Remuneration                                | 348,899          | 293,056          |
| Car, travel, accommodation allowance and other     | 241,000          | 222,309          |
|  | <b>589,899</b>   | <b>515,364</b>   |
| <b>Remuneration of Director Technical Services</b> |                  |                  |
| Annual Remuneration                                | 204,806          | 272,694          |
| Car, travel, accommodation allowance and other     | 160,656          | 235,735          |
| Acting allowance                                   | 43,690           | -                |
|  | <b>409,151</b>   | <b>509,429</b>   |
| <b>Remuneration of Director Social Services</b>    |                  |                  |
| Annual Remuneration                                | 204,806          | 105,801          |
| Car, travel, accommodation allowance and other     | 117,543          | 96,591           |
|  | <b>322,349</b>   | <b>202,392</b>   |
| <b>Remuneration Acting Chief Financial Officer</b> |                  |                  |
| Annual Remuneration                                | -                | -                |
| Travel allowance                                   | 21,500           | -                |
|  | <b>21,500</b>    | <b>-</b>         |
| <b>31. Remuneration of councillors</b>             |                  |                  |
| Mayor  | 455,358          | 654,727          |
| Councillors  | 791,379          | 603,033          |
| Councillors' pension and medical aid contributions | 125,376          | 75,929           |
| Councillor's allowances                            | 440,258          | 500,605          |
|  | <b>1,812,371</b> | <b>1,834,294</b> |

#### In-kind benefits

The Mayor is employed on a full-time basis. The Mayor is provided with an office and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle for official duties. The Mayor has a full-time bodyguard.

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

| <b>Mpofana Municipality</b>                                 |                  |                   |
|---|------------------|-------------------|
| Annual Financial Statements for the year ended 30 June 2013 |                  |                   |
| <b>Notes to the Annual Financial Statements</b>             |                  |                   |
| Figures in Rand   | 2013             | 2012              |
| <b>32. General expenses</b>                                 |                  |                   |
| Accommodation   | 32,500           | -                 |
| Advertising   | 115,101          | 194,335           |
| Assets expensed   | (7,004)          | -                 |
| Auditors remuneration                                       | 842,359          | 793,906           |
| Cleaning  | 8,381            | 13,182            |
| Computer expenses   | 109,796          | 490,332           |
| Conferences and seminars                                    | 33,083           | 105,817           |
| Consumables   | 2,400            | 12,817            |
| Contingent rentals  | -                | 105,851           |
| Deed transfers  | 10,206           | 10,414            |
| Entertainment   | 19,850           | 36,658            |
| Fuel and oil  | 505,705          | 734,120           |
| Insurance   | 285,413          | 252,572           |
| Legal expenses  | 122,357          | 595,890           |
| Machine hire  | 61,250           | 113,727           |
| Materials   | 42,735           | 44,548            |
| Motor vehicle expenses                                      | 20,059           | 35,353            |
| Other general expenses                                      | 1,559,172        | 1,185,978         |
| Pauper burials  | 11,318           | 9,990             |
| Pensioners medical aid                                      | 311,308          | -                 |
| Postage and stamps  | 49,738           | 60,549            |
| Printing and stationery                                     | 189,672          | 977,255           |
| Publishers  | 32,759           | 28,888            |
| Rental general  | 134,273          | 754,207           |
| Security  | 1,404,941        | 1,181,712         |
| Service connections   | 265,757          | 525,818           |
| Subscriptions and membership fees                           | 1,013            | 921               |
| Summons costs   | -                | 24,752            |
| Sundry expenses   | 1,885,349        | 554,044           |
| Team building workshops                                     | 18,458           | 7,915             |
| Telephone and fax   | 417,579          | 737,830           |
| Tourism development   | -                | 2,504             |
| Training  | 45,855           | 31,818            |
| Travel - local  | 22,142           | 34,073            |
| Uniforms  | 105,912          | 67,039            |
| Valuation expenses  | 205,234          | 1,282,031         |
| Water and electricity                                       | 320,639          | -                 |
|   | <b>5,204,331</b> | <b>10,952,373</b> |
| <b>33. Depreciation and amortisation</b>                    |                  |                   |
| Property, plant and equipment                               | 5,733,367        | 6,074,941         |
| Intangible assets   | 27,229           | 36,229            |
|   | <b>5,760,596</b> | <b>6,111,170</b>  |
| <b>34. Contracted services</b>                              |                  |                   |
| Specialist services   | 5,128,031        | 3,621,688         |

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## Mpofana Municipality

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### Notes to the Annual Financial Statements

| Figures in Rand   | 2013               | 2012              |
|---|--------------------|-------------------|
| <b>35. Finance costs</b>  |                    |                   |
| Provision for landfill site (unwinding)   | 723,147            | 773,419           |
| Interest on finance leases  | 529,022            | 570,290           |
| Interest on bank overdraft  | 24,408             | 55,157            |
| Interest on non-current borrowings  | 31,180             | 25,045            |
| Interest on overdue accounts  | 363,423            | -                 |
|   | <b>1,671,180</b>   | <b>1,423,881</b>  |
| <b>36. Impairment of assets</b>   |                    |                   |
| <b>Impairments</b>  |                    |                   |
| Property, plant and equipment   | 421,118            | (1,113,203)       |
| Impairment losses are calculated based on the result of a physical verification conducted during which a condition assessment is performed.   |                    |                   |
| <b>37. Auditors' remuneration</b>   |                    |                   |
| Fees  | 843,359            | 763,906           |
| <b>38. Operating lease</b>  |                    |                   |
| The municipality had the following outstanding commitments under operating leases in the prior year:  |                    |                   |
| <b>Operating leases - lessee</b>  |                    |                   |
| Within one year   | -                  | 175,739           |
| In the second to fifth year   | -                  | 330,502           |
|   | -                  | <b>506,241</b>    |
| The operating lease payments represented rentals payable by the municipality for certain of its fleet vehicles, and clinic.   |                    |                   |
| Operating leases - lessor   |                    |                   |
| The municipality has low cost houses that are leased to certain staff/members. Lease rentals are based on a percentage of the lessee's income levels. These leases are cancellable at any time by either party provided that one month's notice is given. There is no fixed lease period. |                    |                   |
| <b>39. Cash (used in) generated from operations</b>   |                    |                   |
| Surplus   | 7,062,497          | 5,966,606         |
| <b>Adjustments for:</b>   |                    |                   |
| Depreciation and amortisation   | 5,760,599          | 6,111,171         |
| Impairment loss (reversal)  | 421,118            | (1,113,203)       |
| Increase in employee benefit obligation   | 2,514,000          | 6,784,000         |
| Movements in provisions   | 692,273            | 971,793           |
| In-kind donations   | (115,000)          | -                 |
| Correction of error   | (2,405,049)        | -                 |
| <b>Changes in working capital:</b>  |                    |                   |
| (Increase)/decrease in inventories  | (208,702)          | 61,149            |
| Increase in other receivables   | (75,164)           | (451,952)         |
| Decrease in consumer debtors  | (9,175,293)        | 1,602,480         |
| Decrease in prepayments   | 375,413            | 558,888           |
| Movement in VAT   | (5,473,384)        | 1,635,675         |
| Decrease in payables from exchange transactions   | (1,731,618)        | (1,915,052)       |
| Decrease in government grants   | 211,441            | (1,888,731)       |
| Correction of prior period error  | -                  | (6,784,000)       |
|   | <b>(2,129,662)</b> | <b>11,638,764</b> |



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|---------------------------------------|------------------|-------------------|
| <b>40. Commitments</b>                |                  |                   |
| <b>Authorised capital expenditure</b> |                  |                   |
| <b>Approved and contracted for</b>    |                  |                   |
| * Phumlaas Bus / Taxi Route           | 5,760,032        | 9,737,246         |
| * Bruntville Clinic Bus / Taxi Route  | 650,600          | 7,850,259         |
|                                       | <b>6,416,632</b> | <b>17,596,545</b> |

## 41. Contingencies

### Contingencies arising from pending litigation on wage curve agreement

On 21 April 2010 SALGA signed the "Categorisation and job evaluation wage curves collective agreement" (wage curve agreement) with IMATU and SAMVU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees' jobs per the TASK job evaluation system.

Subsequent to the signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

The municipality has not yet implemented the terms of the wage curve agreement and in consequence it has not been able to quantify the amount due to or possibly even owed to the municipality by its employees.

The following were disputes as at 30 June 2012:

|                   |   |        |
|-------------------|---|--------|
| Sala Pension Fund | - | 59,700 |
|-------------------|---|--------|

The Sala Pension Fund sued the municipality for subscription fees. This matter has been resolved.

## 42. Prior period errors

The following errors were detected and adjusted for during the period:

### 2012

#### Post employment medical aid and long service bonus awards

The municipality became aware of the post retirement medical aid and long service bonus awards obligations which were not previously recognised.

The recognition of the above obligations have the following effects on the previously reported prior period amounts:

|   |   |             |
|---|---|-------------|
| <b>Statement of financial position</b>                    |   |             |
| Employee benefit obligation - post retirement medical aid | - | (5,961,000) |
| Employee benefit obligation - long service bonus awards   | - | (803,000)   |
| <b>Statement of changes in net assets</b>                 |   |             |
| Accumulated surplus                                       | - | 6,764,000   |

#### Debtor - Tai Yuen

It was discovered that Tai Yuen Textile had previously been billed on the incorrect formula. Tai Yuen Textile had however been paying correctly. The erroneous billing amounted to R64,913,444. The portion relating to the prior periods amounts to R53,703,704 and the difference of R1,209,740 relates to the current year.

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|---|---------------------|------------|
| <b>42. Prior period errors (continued)</b>                                  |                     |            |
| The impact of the above is as follows:                                      |                     |            |
| <b>Statement of Changes in Net Assets</b>                                   |                     |            |
| Accumulated surplus   |                     | 16,446,056 |
| <b>Statement of Financial Position</b>                                      |                     |            |
| Debtors as previously reported  | 93,047,978          |            |
| Correction of error   | (53,703,704)        |            |
| Debtors restated  | 39,344,274          |            |
| Doubtful debt provision as previously stated                                | (64,554,651)        |            |
| Correction error  | 37,266,649          |            |
| Doubtful debt provision restated  | (27,286,031)        |            |
| <b>Net effect of correction error</b>                                       | <b>(16,446,056)</b> |            |
| <b>Insurance prepayment</b>   |                     |            |
| In the prior year the prepayment of insurance was recognised as an expense. |                     |            |
| The impact of the above is as follows:                                      |                     |            |
| <b>Statement of Financial Position</b>                                      |                     |            |
| Correction of error   | 275,413             |            |
| Prepayments restated  | 275,413             |            |
| <b>Statement of Financial Performance</b>                                   |                     |            |
| Insurance premiums previously reported                                      | 637,985             |            |
| Correction of error   | (275,413)           |            |
| Insurance premiums restated   | 262,572             |            |

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| <b>42. Prior period errors (continued)</b>  |           |           |
| <b>Expanded Public Works Programme Grant (EPWP)</b>   |           |           |
| The receivable and revenue for the EPWP grant was not recognised for the conditions that were met on the prior year.  |           |           |
| The impact of the above is as follows:  |           |           |
| <b>Statement of Financial Position</b>  |           |           |
| Correction of error   |           | 211,050   |
| EPWP receivable restated  |           | 211,050   |
| <b>Statement of Financial Performance</b>   |           |           |
| Correction of error   |           | (211,050) |
| EPWP receivable restated  |           | (211,050) |
| <b>2013</b>   |           |           |
| <b>Electricity bulk purchases</b>   |           |           |
| This adjustment relates to electricity bulk purchases that were previously paid in the prior period.  |           |           |
| The impact of the above is as follows:  |           |           |
| <b>Statement of Changes in Net Assets</b>   |           |           |
| Accumulated surplus   |           | 2,405,048 |
| <b>43. Going concern</b>  |           |           |
| We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.  |           |           |
| The unspent conditional grants liability amounts to R15,785,173 and the municipality has investments to the value of R11,952,770 and an overdraft of R4,536,041. The municipality is working on a financial turn around strategy to address the issue.  |           |           |
| The annual financial statements have however been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of service delivery. |           |           |
| <b>44. Events after the reporting date</b>  |           |           |
| At the time of completion of the annual financial statements, there were no events after the reporting date affecting these annual financial statements.  |           |           |
| <b>45. Fruitless and wasteful expenditure</b>   |           |           |
| Penalty interest  | 401,375   | 36,174    |
| To be condoned  | (401,375) | (36,174)  |
|   | -         | -         |
| Interest and penalty charges were levied for the late payment of Eskom invoices for electricity bulk purchases and late payment of truck licence.   |           |           |
| The municipality incurred the expenditure for cellphones for the employees to the amount of R212,532, in addition to the allowances of R182,078 also provided to the same employees.  |           |           |

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#### 46. In-kind donations and assistance

300 black chairs to the value of R18 000 were donated by SASSA Regional office to the municipality during the current financial year.

#### 47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and process followed in procuring those goods deviated from the provisions of paragraph 12 (1)(d)(1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer which considered them and subsequently approved the deviation from the normal supply chain management regulation. The main reasons for deviations were mainly sole supplier deviation, emergency cases and target market related. From a total expenditure of R 110 241 207, deviations were R 791075 being 0,72% of expenditure, included in the deviation is R 96 200 that was not reported to the Chief Financial Officer.

Furthermore, the following awards are deviations from the SCM policy and have not been reported to the CFO and council:

|                           |        |
|---------------------------|--------|
| • Calltex                 | 1,991  |
| • FG Uniforms             | 13,236 |
| • Treated Timber Products | 14,285 |
| • Vortex PMB              | 66,688 |

#### 48. Risk management

##### Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

|                                |                   |                   |
|--------------------------------|-------------------|-------------------|
| Cash and cash equivalents      | (4,479,272)       | 3,950,120         |
| Financial assets - investments | 11,952,270        | 18,274,070        |
| Consumer debtors               | 21,223,635        | 12,048,244        |
| <b>Maximum credit exposure</b> | <b>28,696,633</b> | <b>34,272,434</b> |

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#### 48. Risk management (continued)

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality financial liabilities into amounts due within the 12 months after:

|   |                  |                  |
|---|------------------|------------------|
| Payables from exchange transactions         | 5,321,456        | 7,052,976        |
| Finance lease obligation                    | 1,633,340        | 1,227,222        |
| Short term portion of long term liabilities | 140,404          | 110,215          |
|   | <b>6,995,200</b> | <b>8,390,413</b> |

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long-term debtors

##### Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

|                               | Effect on profit before tax |             |
|-------------------------------|-----------------------------|-------------|
|                               | 1% increase                 | 2% decrease |
| <b>2013</b>                   |                             |             |
| Financial assets - investment | 119,523                     | (239,045)   |
| Cash and cash equivalent      | (44,793)                    | 89,585      |
| Consumer debtors              | 212,235                     | (424,471)   |
| Annuity loan                  | (1,422)                     | 2,844       |
| <b>2012</b>                   |                             |             |
| Financial assets - investment | 365,481                     | (365,481)   |
| Cash and cash equivalent      | 79,002                      | (79,002)    |
| Consumer debtors              | 240,055                     | (24,965)    |
| Annuity loan                  | (5,238)                     | 5,238       |

#### 49. Electricity losses

Electricity units (kWh) lost in distribution  
Electricity units (kWh) purchased from Eskom  
Electricity units (kWh) sold from Eskom

|                   |                   |
|-------------------|-------------------|
| 50,780,898        | 59,930,776        |
| (44,566,560)      | (44,887,877)      |
| <b>16,193,338</b> | <b>15,042,899</b> |

Electricity losses for the financial year is 25% (2012: 24%). The Rand value of the electricity losses for the current financial year is R6 874 000 (2012: R8,353,601).

These losses are attributable to electricity line losses within the electricity network infrastructure.

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**Mpofana Municipality**  
Annual Financial Statements for the year ended 30 June 2013  
**Notes to the Annual Financial Statements**  
Figures in Rand

2013

2012

**50. Councillor arrears on consumer accounts**  
No current councillor has arrears on his services account.

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*[Signature]*

# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

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## REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON MPOFANA MUNICIPALITY REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Mpoofana Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally recognised Accounting Practice (SA Standards of GRAP) and the requirements of Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for qualified opinion

#### Irregular expenditure

4. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section [40(3)(i) or 55(2)(b)(i)] of the PFMA. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R26 43 million.

#### Qualified opinion

5. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Mpoofana Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.



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# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

variances as disclosed in the annual performance report. The institution's records did not permit the application of alternative audit procedures.  
Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the reasons for major variances.  
Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

## **Consistency**

16. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets are not consistent with the objectives, indicators, targets options as per the approved integrated development plan. This is due to the absence of an effective performance management system.

## **Reliability of Information**

17. The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
18. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to all selected development objectives.
19. This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to all the development objectives.

## **Compliance with laws and regulations**

20. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

## **Audit Committee**

21. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management, performance evaluation as required by section 166(2)(a) of the Municipal Finance Management Act.
22. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
23. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
24. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
25. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.





# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

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42. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
43. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Revenue Management**

44. A credit control and debt collection policy was not adopted, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of MFMA.

## **Supply Chain Management**

45. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) & (c).
46. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a) and 36(1).
47. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
48. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
49. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
50. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
51. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
52. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
53. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
54. Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.

## **Internal control**

55. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the performance report, and the findings on compliance with laws and regulations included in this report.



# MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

Management report of Mpozana Municipality

## SECTION 7: CONCLUSION

88. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remain committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely



Sheki Hlongwe  
Senior Manager: KZN 4

19 November 2013

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Email: Areeb@agea.co.za

Distribution:  
Municipal Manager  
CFO  
Audit committee  
Head of internal audit



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# MPOFANA LOCAL MUNICIPALITY

2012 2013

## CHAPTER 8: MANAGEMENT PROGRESS REPORT

| Report Finding   | Proposed Action to be Implemented  | Responsible Person | Target Date /Progress to date      |
|--|--|--------------------|------------------------------------|
| <b><u>(4) Irregular Expenditure</u></b> : The Municipality did not include particulars of irregular expenditure in the notes to the Financial Statements as required by Section 40 (3) (i) or 55 (2) (b) (i) of the PFMA. The Municipality made payment in contraventions of the supply chain management requirements which were not included in the regular expenditure, resulting in irregular expenditure being understated by R2 643 million | This arose as a result of tenders that did not have formal contracts and to address this, the municipality is making sure that all contracts between the Service Providers and the Municipality are in place and that those for the prior year are submitted to Council for condonation. All tender documents to be filed and recorded correctly .Irregular expenditure to be monitored on a monthly basis throughout the year and where it has occurred, to be reported to Council accordingly. | CFO                | Being Monitored on a monthly basis |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |   |                   |  |
|--|---|-------------------|--|
| <p>(7) <b><u>Material Impairment</u></b> As disclosed in note 11 to the financial statements, the municipality has provided for bad debts impairment amounting to R34 16 million, as the recoverability thereof was doubtful.</p>  | <p>This was due to assets that were impaired and to rectify this, the municipality has embarked on a process of incorporating all assets into our Assets Register. If there are any assets that are impaired, such assets will be written-off through a Council resolution</p>  | <p>CFO and MM</p> | <p>To be finalized before 30 June 2013</p> |
| <p>(8) <b><u>Electricity Losses</u></b> As disclosed in note 49 to the financial statements, the Municipality suffered electricity losses of 15 193 38 kw/h amounting to R6,87 million. These losses were due to electricity line losses within the network infrastructure and illegal connections.</p>                                    | <p>The municipality has embarked on a revenue enhancement and protection as well as a debt collection process. Credit control and debt collection policies were approved by Council in October 2013. Have already employed 6 electricity interns through the EPWP to investigate each and every household to identify and report illegal connections.</p> | <p>CFO and MM</p> | <p>Ongoing</p>                             |
| <p>(9) <b><u>Significant uncertainties</u></b>: With reference to note 51 to the financial statements, the municipality is defendant in various lawsuits and there are also uncertainties arising from the fact that SALGA has appealed the recent court order regarding the wage curve agreement. If the outcome is unfavourable, the</p> | <p>The municipality will make provision for any liabilities in the adjustment budget.</p>   | <p>CFO and MM</p> | <p>29<sup>th</sup> February 2014</p>       |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |  |                           |                                |
|--|--|---------------------------|--------------------------------|
| <p>municipality will have to embark on a job evaluation process before implementing the wage curve. Therefore, the ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statement.</p>   |  |                           |                                |
| <p><b><u>Predetermined objectives:</u></b></p> <p><b><u>Usefulness of Information (Presentation)</u></b> The National Treasury Guide for the preparation of the annual report required that explanations for variance between planned and reported targets should be provided in all instances and should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for all major variance as disclosed in the annual performance report. The institution's records did not permit the application of alternative audit procedures.</p> <p>Consequently, I did not obtain sufficient appropriate</p> | <p>The municipality is embarking on a phased approach in dealing with performance information. Currently a manual system is used however the system will be introduced in the last quarter of this financial year to ensure that it kicks in at the beginning of the financial year covering performance reporting at management level. COGTA will be required to assist in the process of acquiring and implementing a simple, user friendly system</p> | <p>PMS Manager and MM</p> | <p>Immediately and Ongoing</p> |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |   |                           |                      |
|--|---|---------------------------|----------------------|
| <p>audit evidence to satisfy myself as to the reliability of the reasons for major variances.</p> <p>Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.</p>  |   |                           |                      |
| <p><b><u>(16) Consistency</u></b></p> <p>The Municipal System Act, Section 41 c) requires that the intergrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, indicators and targets are not consistent with the objectives, indicators, targets options as per the approved integrated development plan. This is due to the absence of an effective performance management system.</p> | <p>Inconsistencies between the IDP's objectives, indicators and targets have been correctly aligned in the 2013/14 IDP and Budget and referenced accordingly. (See the municipality's strategic document)</p> | <p>PMS Manager and MM</p> | <p>31 March 2014</p> |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |  |                           |                |
|---|--|---------------------------|----------------|
| <p><b><u>(17) Reliability of Information</u></b></p> <p>The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate system to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.</p>  | <p>The municipality is embarking on a phased approach in dealing with performance information. Currently a manual system is used however the system will be introduced in the last quarter of this financial year to ensure that it kicks in at the beginning of the financial year covering performance reporting at management level. COGTA will be required to assist in the process of acquiring and implementing a simple, user friendly system</p> | <p>PMS Manager and MM</p> | <p>Ongoing</p> |
| <p><b><u>(18)</u></b> I was unable to obtain the information and explanation I considered necessary to satisfy myself as to the reliability of information presented with respect to all selected development objectives.</p> <p>(19) This was due to the limitation place on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support to the information presented with respect to all the development objectives.</p> | <p>The municipality is embarking on a phased approach in dealing with performance information. Currently a manual system is used however the system will be introduced in the last quarter of this financial year to ensure that it kicks in at the beginning of the financial year covering performance reporting at management level. COGTA will be required to assist in the process of acquiring and implementing a simple, user friendly system</p> | <p>PMS Manager and MM</p> | <p>Ongoing</p> |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |   |                                     |                |
|---|---|-------------------------------------|----------------|
| <p>Compliance with Laws and Regulations</p> <p><b>Audit Committee</b></p> <p>(21) The Audit Committee did not advise Council on matters relating to internal financial control and internal audit, risk management, accounting policies, effective governance, performance management, performance evaluation as required by section 166 (2) of the Municipal Finance Management Act.</p> <p>(22) The audit Committee did not advise Council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by Section 166 (2) (a) (iv) of the MFMA</p> <p>(23) The Audit Committee did not advise Council on matters relating to Compliance with Legislation, as require by Section 166 (2) (a) (vii) of the MFMA.</p> <p>(24) The Audit Committee did not review the annual financial statement to provide the Council with an authoritative and credible view of eh financial</p> | <p>For the Audit Committee to function effectively, it requires strong political leadership, committed management and good technical support as it could not function in a vacuum. All the inadequacies identified have been rectified. The service provider which performs internal audit functions periodically reports and accounts to the municipal manager and provides technical support to the Audit Committee. The AC term of office expired at the end of 2012/13 financial year and their contract was running on a month to month basis, however a new Committee has since been appointed with only one member from the previous Committee being retained for continuity purposes. Internal Audit Manager has been appointed and will start on 3<sup>rd</sup> February 2014.</p> | <p>Internal Audit Manger and MM</p> | <p>Ongoing</p> |
|---|---|-------------------------------------|----------------|



## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |  |                                     |                |
|--|--|-------------------------------------|----------------|
| <p>position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166 (2) (b) of the MFMA.</p> <p>(25) The Audit Committee did not meet at least four times a year, as required by Section 166 (4) (b) of the MFMA.</p> <p>(26) The Audit Committee did not review the municipality's performance management system and make recommendations to Council, as required by Municipal planning and performance management regulations 14 (4) (a) (ii)</p> |  |                                     |                |
| <p>(27) The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and performance management regulations 14 (4) (a) (i)</p>  | <p>For the Audit Committee to function effectively, it requires strong political leadership, committed management and good technical support as it could not function in a vacuum. All the inadequacies identified have been rectified. The service provider which performs internal audit functions periodically reports and accounts to the municipal manager and provides technical support to the Audit Committee. The AC term of office expired at the end of</p> | <p>Internal Audit Manger and MM</p> | <p>Ongoing</p> |
| <p>(28) The Audit Committee did not submit, at least twice during the financial year, and audit report on the review of the performance management system to the Council, as required by Municipal planning and</p>  |  |                                     |                |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |  |    |                         |
|--|--|----|-------------------------|
| performance management regulation 14 (4) (a) (iii)   | 2012/13 financial year and their contract was running on a month to month basis, however a new Committee has since been appointed with only one member from the previous Committee being retained for continuity purposes. Internal Audit Manager has been appointed and will start on 3 <sup>rd</sup> February 2014.  |    |                         |
| <p><b><u>Internal Audit</u></b></p> <p>(29) The internal Audit unit did not function as required by section 165 (2) of the MFMA.</p>   | <p>A service provider has been appointed and most of the Internal Audit Activity strategic documents have been approved by the Audit Committee (Internal Audit Plan, Internal Audit Charter). The Financial system analysis have been conducted. The internal audit unit will be fully functional as from the 1<sup>st</sup> February 2014 and will advise and report on all matters falling within its scope of work.</p> | MM | Implemented and Ongoing |
| (30) The Internal Audit Unit did not advise the Accounting officer and/ or report to the audit committee on matters relating to compliance with Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required y section 165 (2) (b) (vii) of the MFMA. |  |    |                         |
| (31) The Internal Audit Unit did not audit the result of   |  |    |                         |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |   |    |                     |
|--|---|----|---------------------|
| performance measurements, as required by section 45 (1) (a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulations 14 (1) (a).   |   |    |                     |
| (32) The Internal Audit Unit did not assess the functionality of the performance management system as required by the Municipal Planning and Performance Management Regulations 14 (1) (b) (i).  | Auditing of Performance Management has been provided for in the Internal Audit Plan and will be audited on a quarterly basis. | MM | Implemented ongoing |
| (33) The Internal Audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the Municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14 (1) (b) (iii). |   |    |                     |
| (34) The Internal Audit Unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee as required by the Municipal Planning and Performance   |   |    |                     |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |   |    |                         |
|---|---|----|-------------------------|
| Management Regulations 14 (1) c)  |   |    |                         |
| <p><b><u>HR Management</u></b></p> <p>(35) The Senior Managers directly accountable to the Municipal Manager did not sign performance agreements, as required by Section 57 (2) (a) of the Municipal Systems Act.</p>                         | <p>Performance management systems are in place and all managers have signed their Performance Agreements and Employment Contracts and the assessments for the first quarter were finalised and the second quarter will be finalised by the 14<sup>th</sup> February</p> | MM | Implemented and Ongoing |
| <p><b><u>Strategic Planning and Performance Management</u></b></p> <p>(36) The Municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.</p> | <p>The municipality has established a mechanism to monitor and to review the performance of the MM and Section 56 Managers and ensured that all the objectives are SMART and credible score-cards drawn from the SDBIP with indicators and targets clearly defined.</p> | MM | Implemented and Ongoing |
| <p>(37) The IDP Adopted by the Municipality does not reflect and identify a financial plan and the key</p>  | <p>The IDP for 2013/2014 was refined to ensure that it complies with the COGTA requirements and that it</p>   | MM | Implemented and         |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |   |  |         |
|--|---|--|---------|
| performance indicators and targets, as required by Section 26 and 41 of the MSA.   | is credible.  |  | ongoing |
| <p><b><u>Financial Statements</u></b></p> <p>(38) The Financial Statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122 of the MFMA</p> | <p>The municipality has embarked on a capacity building process whereby relevant personnel from Finance Department have been selected to undergo training in the preparation of financial statement. Three staff members have already completed their training provided by National Treasury.</p>             |  |         |
| <p><b><u>Expenditure</u></b></p> <p>(39) Money owing by the municipality was not always paid within 30 days or an agreed period, as required by Section 65 (2) (e) of the MFMA.</p>                            | <p>All transaction are approved by the CFO and are submitted to Council on a monthly basis through Section 71 reports.</p> <p>Payments Not Made Within 30 Days were as a result of unhealthy cash-flows however, all payments are now done within 30 days as the municipality's cash-flows have improved.</p> |  |         |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |  |            |   |
|--|--|------------|---|
| (40) Payments were made without the approval of the accounting officer or a properly authorized official as required by Section 11 (1) of the MFMA                               | Credit Control and Debt Collection Policies were adopted by Council in October 2013.                                   | CFO        | Implemented and will be monitored on a monthly basis. |
| (41) An effective system of expenditure control, including procedures for approval was not in place, as required by Section 65 (2) (a) of the MFMA.                              | All transactions are approved by the CFO and are submitted to council on a monthly basis through Section 71 reporting. | CFO        | Implemented.  |
| (42) An adequate management, accounting and information system was not in place which recognized expenditure when it was incurred, as required by section 65 (2) (b) of the MFMA | The service provider will be contacted in order to review the accounting module on the system                          | CFO and MM | 28 February 2014                                      |
| (43) Reasonable steps were taken to prevent unauthorized, irregular and fruitless and wasteful expenditure, as required by section 62 (1) (d) of the MFMA.                       |  |            |   |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|  |  |                   |   |
|--|--|-------------------|---|
| <p><b><u>Revenue Management</u></b></p> <p>(44) A credit control and debt collection policy was not adopted, as required by section 96 (b) of the Municipal Systems Act and section 62 (1) (f) (iii) of MFMA.</p>  | <p>Credit control and debt collection policies were adopted by Council in October 2013</p>   | <p>CFO and MM</p> | <p>Implemented and will be monitored continuously</p> |
| <p><b><u>Supply Chain Management</u></b></p> <p>(45) Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulations 17 (a) &amp; (c).</p> | <p>All supply chain management policies are in place to prevent irregularities in SCM and all responsibilities for the SCM are currently being handled by the CFO until the position is filled. Supply Chain policies were adopted by Council in October 2013.</p> | <p>CFO</p>        | <p>Implemented and Ongoing</p>                        |
| <p>(46) Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids, as required by SCM regulation 19 (a) and 36 (1)</p>   | <p>All bid committees are in place and function optimally, namely the bid specification, bid valuation and bid adjudication committee</p>  | <p>CFO and MM</p> | <p>Implemented and Ongoing</p>                        |

## MPOFANA LOCAL MUNICIPALITY ANNUAL REPORT

|   |  |            |                         |
|---|--|------------|-------------------------|
| (47) Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services as per required by SCM regulation 27 (2) (a)                       | All bid committees are in place and function optimally, namely the bid specification, bid valuation and bid adjudication committee | CFO and MM | Implemented and Ongoing |
| (48) Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21 (b) and 28 (1) (a) and Preferential Procurement Regulations | The CFO will monitor the awarding of bids as he is responsible for the SCM unit until the post is filled.                          | CFO        | Ongoing                 |
| (49) Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committee which were composed in accordance with SCM Regulation 29 (2)  | All bid committees are in place and function optimally, namely the bid specification, bid valuation and bid adjudication committee | CFO and MM | Implemented             |
| (50) Sufficient appropriate audit evidence could not be obtained that preference points systems was   | All bid committees are in place and function optimally, namely the bid specification, bid  | CFO and MM | Implemented             |



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| applied in a all procurement of goods and services above R30 000 as required by section 2 (a) of the Preferential Procurement Policy Framework Act and SCM Regulation 28 (1) (a).  | valuation and bid adjudication committee.<br><br>Furthermore the CFO will ensure the compliance with all SCM regulations.   |            |             |
| (51) Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the preferential procurement policy framework act and its regulations. | All bid committees are in place and function optimally, namely the bid specification, bid valuation and bid adjudication committee                                    | CFO and MM | Implemented |
| (52) Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality.  | A contracts register has been developed with start and end date to allow administration enough time before the end date to determine if the contract needs extension. | CFO        | Implemented |
| (53) Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the construction industry development board (CIDB) and  | A compliance check list has been developed to assist in checking for necessary documents before the bid is finalised  | CFO        | Implemented |

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| qualified for the for the contract in accordance with section 18 (1) of the CIDB Act and CIDB Regulations 17 and 25 (7A)   |  |     |             |
| (54) Sufficient appropriate audit evidence could not be obtained that contract were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM Regulation 43. | A compliance check list has been developed to assist in checking for necessary documents before the bid is finalised | CFO | Implemented |

It should be noted that the municipality had enormous challenges during the 2012/13 financial year attributed mainly by the fact that the municipality was without a Municipal Manager and a CFO FOR almost the entire year resulting in the collapse of all compliance and governance matters. Over and above the irregularities identified by the AG, the municipality has embarked on a rigorous exercise of identifying the root course to the problems and created a mechanism through the risk management process of identifying potential risks and challenges before they can make any negative impact on the functionality of the municipality.

### **MILESTONES THAT HAVE BEEN ACHIEVED SO FAR**

- All Section 56 managers and the Municipal Manager have signed their performance agreements for 2013/14 covering personal development plans, financial disclosures and code of ethics,
- All new managers have signed their employment contracts.
- The IDP for 2012/13 was refined to ensure that it is complies with the COGTA requirements and that it is credible.
- The Strategic Planning session that was conducted in October 2013 set the tone for turning around the municipality with clear goals and milestones to be achieved through the balanced score-card model.
- All Section 56 Management positions have been filled.

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- Critical posts namely, HR Manager, PMS Manager, Internal Audit Manager have been filled.
- All policies that have been outstanding have been adopted by Council.
- Municipal By-laws have been approved.
- The organisational Structure is being revised and the first draft has been presented to Council.
  - Overtime is being curbed and monitored and it is only performed on approval of the Municipal Manager in very exceptional circumstances.
  - Absenteeism and leave are closely monitored and recorded
  - Travel claims are monitored and only paid on approval of the Municipal Manager.
  - All contracts that were a cause for irregular expenditure are being corrected.
  - Fleet management is being reviewed and controls are being put into place to prevent any misuse and incurring of irregular expenditure as a result.

# MPOFANA LOCAL MUNICIPALITY

2012 2013

## APPENDICES

### APPENDIX A – COUNCILLORS; COMMITTEE ALLOCATION AND COUNCIL ATTENDANCE

| ATTENDANCE : COUNCILLORS : MPOFANA LOCAL MUNICIPAL COUNCIL MEETINGS . |                   |                      |                      |          |          |          |          |          |                      |          |          |          |          |
|---|-------------------|----------------------|----------------------|----------|----------|----------|----------|----------|----------------------|----------|----------|----------|----------|
|   |                   | JUL                  | AUG                  | SEPT     | OCT      | NOV      | DEC      | JAN      | FEB                  | MAR      | APR      | MAY      | JUN      |
| % ATT   | NAME              | Ordinary             | Ordinary             | Ordinary | Ordinary | Ordinary | Ordinary | Ordinary | Ordinary             | Ordinary | Ordinary | Ordinary | Ordinary |
| 100   | Cllr NJ           | No Scheduled Meeting | No Scheduled Meeting | ✓        | ✓        | ✓        | ✓        | ✓        | No Scheduled Meeting | ✓        | ✓        | ✓        | ✓        |
| 100   | Cllr XM           |                      |                      | ✓        | ✓        | ✓        | ✓        | ✓        |                      | ✓        | ✓        | ✓        | Apology  |
| 100   | Cllr AZ           |                      |                      |          |          | ✓        | ✓        |          |                      | Apology  | ✓        | ✓        | ✓        |
| 71,43   | Cllr JS Shabalala |                      |                      | ✓        | ✓        | ✓        | ✓        | ✓        |                      | ✓        | ✓        | ✓        | ✓        |
| 100   | Cllr BA           |                      |                      | ✓        | ✓        | ✓        | ✓        | ✓        |                      | ✓        | ✓        | ✓        | ✓        |
| 100   | Cllr K Dennyschen |                      |                      | ✓        | ✓        | ✓        | ✓        | ✓        |                      | ✓        | Apology  | ✓        | ✓        |
| 100   | Cllr SY Mhlongo   |                      |                      | ✓        | ✓        | ✓        | ✓        |          |                      | ✓        | ✓        | ✓        | Apology  |

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## APPENDIX B –THIRD TIER ADMINISTRATIVE STRUCTURE

| Directorate                                  | Manager                              |
|--|--------------------------------------|
| Executive and Council                        | Mr. Links (Acting Municipal Manager) |
| Budget and Treasury Office                   | Mrs. N Mbatha (Acting CFOs)          |
| Corporate and Facilities Management Services | Mrs . GP Maphumulo                   |
| Infrastructure Development and Maintenance   | Mr. Links                            |
| Economic and Community Services              | Mrs B Mchunu                         |

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## APPENDIX D – FUNCTIONS OF MUNICIPALITY

|   | Function<br>Applicable |
|---|------------------------|
| <b>Municipal Functions</b>  |                        |
| <b>Constitution Schedule 4, Part B Functions:</b>   |                        |
| Air pollution   | No                     |
| Building regulations  | Yes                    |
| Child care facilities   | No                     |
| Electricity and gas reticulation  | No                     |
| Firefighting services   | No                     |
| Local Tourism   | Yes                    |
| Municipal airports  | No                     |
| Municipal planning  | Yes                    |
| Municipal health services   | Yes                    |
| Municipal public transport  | Yes                    |
| Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically | Yes                    |
| Pontoons, ferries, jetties, piers, and harbors, excluding the   | No                     |
| Stormwater management systems in built-up area  | Yes                    |

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|   |                   |
|---|-------------------|
| Trading regulations   | YES               |
| Water and sanitation services limited to potable water supply | NO                |
| Beaches and amusement facilities                              | NO                |
| Billboards and the display of advertisements in public        | YES               |
| Cemeteries, funeral parlours and crematoria                   | YES               |
| Cleansing   | YES               |
| Control of public nuisances                                   | YES               |
| Control of undertakings that sell liquor to the public        | Yes               |
| Facilities for the accommodation -are and burial of animals   |                   |
| Fencing and fences  | YES               |
| Licensing of dogs   | YES               |
| Licensing and control of undertakings that sell food to the   | YES               |
| Local amenities   | YES               |
| Local sport facilities  | YES               |
| Markets   | YES               |
| Municipal abattoirs   | NO                |
| Municipal parks and recreation                                | YES               |
| Municipal roads   | Yes (Maintenance) |
| Noise pollution   | YES               |
| Pounds  | YES               |
| Public places   | YES               |
| Refuse removal, refuse dumps and solid waste disposal         | Yes               |
| Street trading  | YES               |

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|  |     |
|--|-----|
| Street lighting                        | YES |
| Traffic and parking                    | YES |
| *If municipality indicate (Yes or No). |     |



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## APPENDIX E – WARD REPORTING

| Functionality of Ward Committees |   |  |   |  |  |
|----------------------------------|---|--|---|--|--|
| Ward Name<br>(Number)            | Name of<br>Ward<br>Councillor<br>and<br><br>elected<br>Ward<br>committee<br><br>members | Committee<br>established<br><br>(Yes / No) | NO. of monthly<br>committee<br>meetings held<br>during the year | No. of monthly<br>reports<br>submitted to<br>Speaker's<br>Office on time | No. of<br>quarterly<br>public ward<br>meetings held<br>during the year |
| 1                                |   |  |   |  |  |
| 2                                |   |  |   |  |  |
| 3                                |   |  |   |  |  |
| 4                                |   |  |   |  |  |

To be completed

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## **APPENDIX G – RECOMMENDATIONS OF THE MUNICIPAL AUDIT COMMITTEE**

To be inserted

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## SERVICE PROVIDER PERFORMANCE SCHEDULE

| Company Name | Description | Amount | Start Date | End Date | Award Date |      |      |           |
|--------------|-------------|--------|------------|----------|------------|------|------|-----------|
|              |             |        |            |          |            | Poor | Good | Excellent |
|              |             |        |            |          |            |      |      |           |
|              |             |        |            |          |            |      |      |           |
|              |             |        |            |          |            |      |      |           |
|              |             |        |            |          |            |      |      |           |
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|              |             |        |            |          |            |      |      |           |

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